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# The Fundamentals of Political Economy



Progress Publishers

Moscow



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Designed by *Vladimir Bisengaliev*

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Основы политической экономии

На английском языке

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Printed in the Union of Soviet Socialist Republics

0603010000-250  
H 014(01)-83 21-83

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## THE SUBJECT-MATTER OF POLITICAL ECONOMY

Many sciences are concerned with understanding the world: some study nature, others study society. Those that study nature are called natural sciences. Those that study various aspects of the development of society are called social sciences.

POLITICAL ECONOMY is a social science constituting a component part of Marxism-Leninism.

Marxism-Leninism deals with the general laws governing the development of both nature and society, with the socialist revolution and the building of a socialist and then communist society. It is a unified and harmonious doctrine including three integral parts: philosophy, political economy and the theory of scientific communism. Political economy deals with the production of material wealth—the basis of the life of human society.

Production of material wealth—  
the basis of the life of society

People began to think long ago about what lies behind social development, and there are different views on this. Religions put the development of nature and society down to God's will, but both science and practice have shown that no supernatural powers do, in fact, exist. It also used to be thought, and many bourgeois scholars still adhere to this view, that the development of society depends deci-



sively on the geographical environment, i.e., the specific natural conditions (climate, the soil, minerals, and so on). The geographical environment is, of course, one of the essential conditions for the development of society, but it is not the decisive one. Over three thousand years in Europe, for example, three different social systems succeeded one another, and in Central and Eastern Europe there were even four over this period of time. Meanwhile, the change in geographical conditions in Europe was so slight that the geographical sciences do not even register it. Some people believe that the course of history depends just on the will of outstanding people—statesmen, generals, and the like. In fact, however, while such people can speed up or slow down the onset of particular events, they are not able to change the course of history.

What, then, does determine the development of society? This question was first answered correctly by Karl Marx.

In order to live, the primary things people require are food, clothing and footwear, housing and other material goods, and in order to have these, they must produce them—people must work. Any society will perish if it ceases to produce material wealth, so, as Marx teaches, the production of material wealth is the basis of the life and development of any society.

What does the production of material wealth mean? This process includes human labour, means of production and objects of labour.

*Labour* is conscious, purposeful activity of people to produce material wealth. In the labour process, people act on nature in order to adapt it to their own requirements. Labour is exclusive to mankind. It is an eternal, natural necessity and the primary condition for human life. In Engels' words, labour created man himself.

The production process is out of the question *without means of labour*: those things that people use to help them act on and modify objects of labour. Means of labour include machinery and equipment, instruments and appliances, production premises and installations, all forms of transport, canals, electricity transmission lines, and so on. In farming, the land is also a means of labour. The decisive role among the means of labour belongs to *instruments of labour*. It is the instruments of labour man uses that determine the force of his impact on nature. In primitive-communal society, for instance, people used sticks and

stones as instruments of labour, so they were usually powerless before nature. Today man works with the help of many machines and his domination over nature has grown immeasurably. Consequently, the level of development of instruments of labour serves as a measure of man's domination over the environment. Marx points out that "it is not articles made, but how they are made, and by what instrument, that enables us to distinguish different economic epochs".<sup>1</sup>

People use instruments of labour to act on *objects of labour*, i.e., on everything to which man's labour is applied. Man finds objects of labour in the environment, in nature itself. All the primary objects of labour—minerals, animals and plants, the wealth of the waters—are found in nature. Objects of labour that have already experienced the impact of human labour but require further processing are called *raw materials*. Nowadays, many new objects of labour not found in nature are used. These are materials that man has created with preset qualities—polymers, synthetic resins, and the like. With the help of means of labour, in his labour activities man adapts the objects of labour to his requirements, the result of this process being the *product of labour*.

Means of labour and objects of labour together constitute *means of production*, but on their own these means of production cannot, of course, produce any material wealth. The most sophisticated technology is worthless without people, so man himself and his labour power constitute the decisive factor for any production.

## Productive forces and relations of production

At whatever stage of development production might be, it always has two aspects: productive forces and relations of production.

*Productive forces* are means of production created by society, especially instruments of labour, and also the people producing the material wealth. It is people who, thanks to acquired knowledge, experience and labour skills, fashion

<sup>1</sup> K. Marx, *Capital*, Vol. I, Progress Publishers, Moscow, 1975, p. 175.

and set in motion means, and particularly instruments of labour. They improve them, invent new machines, draw new objects of labour into the production process, and expand their own knowledge. This ensures the development of the productive forces and the production of material wealth in adequate quantities.

People produce material wealth jointly—in groups, socially, rather than on their own. Take, for example, a modern shoe factory. How many people are involved in the manufacture of this one commodity—shoes? Hundreds, thousands, and even more people work for the factory in manufacturing machinery, leather, thread, needles, and so on. Even the small peasant is not isolated from the world in producing his bread: he requires agricultural implements provided by a factory or craftsman; he needs salt, matches, soap, and so on and so forth. These are all made by other producers. This means that, in the production of material wealth, people are tied to and depend on one another, that they interact on the basis of specific relations.

The relations between people in the production process may be technical or economic. Technical relations are determined by the techniques and technology of production, and by labour organisation. For instance, in a large-scale enterprise there exists a specific distribution of people in the work places and workshops in accordance with the technological cycle. Day-to-day management of work is the responsibility of the engineers, foremen, team leaders and operating staff. All these people are in a specific state of mutual subordination dictated by the production process itself, and technical relations take shape between them. Technical relations do not fall within the subject-matter of political economy, which embraces *economic relations or relations of production*.

In Marxist terminology, the relations between people in the process of production, exchange, distribution and the consumption of material wealth are called *relations of production* or *economic relations*. These are always property relations connected with the nature of the ownership of the means of production and products. Relations of production may be either relations of co-operation and mutual assistance between people free from exploitation, or relations of exploitation of man by man. This depends on who owns the chief means of production: the land and minerals,

forests, factories and plants, instruments of labour, and so on. When the means of production are privately owned and belong not to society as a whole, but to individuals, social groups or classes, relations of exploitation of man by man, of domination and subordination are established. It is because the workers are deprived of the means of production under capitalism that they are compelled to work for capitalists. Under socialism, the means of production are public property, so there is no exploitation and the relations between people are those of comradely co-operation and socialist mutual assistance.

People's relations to the means of production determine their position and place in production and the mode of the distribution of the products of labour. Under capitalism, for instance, the bourgeoisie, which owns the means of production, have all the products made by the workers at their disposal, while the majority of the workers live in need. Under socialism, where the means of production belong to the people (are public property), the objects of consumption are distributed according to labour input, and a steady rise is ensured in the material and cultural living standards of all the working people.

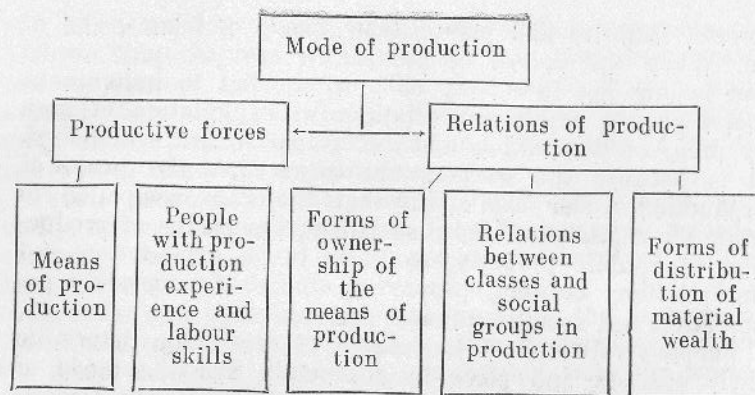
There have been five main types of relations of production in the history of human society's development: primitive-communal, slave-owning, feudal, capitalist and communist.

Each of these is based on a specific form of ownership of the means of production. Thus, the basis of the slave-owning, feudal and capitalist systems is private ownership of the means of production, which has inevitably brought society to a split between hostile classes—exploiters and exploited. The main feature of these systems is, therefore, a fierce class struggle. Only under socialism, where the basis of the relations of production is public, socialist ownership of the means of production, there is no class struggle: society consists of friendly classes—workers, peasants and the social stratum of intellectuals.

Together, the productive forces and relations of production constitute the *mode of production*.

Although the mode of production also constitutes a unity of the productive forces and relations of production, these are different aspects of it. They interact and influence each other, and both develop in the course of the historical development of society.





The productive forces are the more mobile component of the mode of production. They are always changing, for people are constantly improving the instruments of labour and accumulating production experience. As for the relations of production, they change depending on the level of development of the productive forces and, in turn, exert an impact on their development.

When the relations of production correspond to the level of development of the productive forces, the latter develop well. The socialist countries provide an example of such a correspondence. Here, production develops rapidly, without crises or unemployment, because it is based on public ownership of the means of production.

When the relations of production do not correspond to the development level of the productive forces, they slow down the development of production. This is exemplified by the contemporary capitalist countries, where production is developing slowly and, during economic crises, even goes into recession, while millions and millions of the working people lose their jobs and join the ranks of the unemployed. This happens because, in bourgeois society, it is private and state capitalist ownership of the means of production that predominates and also hampers the further development of the productive forces.

A specific level of development of the productive forces requires corresponding relations of production. This is the *economic law, discovered by Marx, of the correspondence of relations of production to the character and level of development of the productive forces*. This law reveals the economic basis of social revolution. When relations of

production fall behind and hamper the development of the productive forces, they are inevitably replaced by new ones. In a society divided into hostile classes, the change in production relations always takes place by means of a social revolution.

The classes whose interests are met by the old relations of production do not give up their positions willingly. It is hardly likely, for example, that US capitalists will themselves give up their plants, factories, railways, and so on, since private property allows them to exploit the working people, increase their capital and live in luxury. In order that the old relations of production, which have become a brake on the development of productive forces, might be replaced, therefore, a social force is required that is capable of eliminating relations of the exploitation of man by man. In capitalist society the working class is just such a force. Together with its ally, the peasantry, it has a vital vested interest in getting rid of exploitation.

Only in socialist society, where there are no hostile classes, do relations of production develop by changing in a planned way as the productive forces develop, rather than by means of social revolution.

The basis of society must be distinguished from the mode of production.

The *basis* of society means the economic system, i.e., the totality of socio-production relations at each given stage in the historical development of society, relations connected with a specific level of development of the productive forces. The basis of society can be antagonistic or non-antagonistic. The bases of the slave, feudal and capitalist societies are antagonistic, since they are based on private ownership of the means of production, relations of domination and subordination, and exploitation of man by man. The basis of socialist society is non-antagonistic, for this society is based on public ownership of the means of production in the absence of exploitation.

The basis engenders a corresponding superstructure and determines its development. The *superstructure* consists of the political, philosophical, legal, artistic, religious and other views of society and corresponding institutions. In a class society, the superstructure has a class character. The dominant class creates institutions to protect its class interests, in accordance with its views.

Both the basis and the superstructure exist only for a

specific period of time. When the basis changes, so does the superstructure. Thus, the replacement of the feudal basis with the capitalist one also entailed a replacement of the feudal superstructure with a capitalist one; the emergence of the socialist basis led to that of the socialist superstructure and destruction of the capitalist. While the superstructure as a whole is engendered by the basis, individual elements of it may emerge within the heart of the old society, since ideas and views corresponding to the most advanced class take shape here. Under capitalism, for instance, a proletarian ideology corresponding to the new revolutionary class—the proletariat—emerges.

The superstructure is engendered by the basis, but once it has come into existence, it is not passive in relation to this basis, but exerts an active influence on it, helping it to take shape and consolidate itself. In relation to the basis, however, the superstructure may play either a reactionary or a progressive role. For example, the superstructure of the capitalist basis at present plays an extremely reactionary part, for capitalism has now come to act as a brake on the further development of the productive forces. In order that the productive forces might develop successfully, private ownership of the means of production must be abolished. The superstructure, however, protects private property, declaring it sacred and thereby hampering the development of the productive forces under capitalism. This is the reactionary role of the superstructure in capitalist society.

Under socialism, the superstructure of the socialist basis plays a progressive role. In this society, the political authorities direct the development of the productive forces, thereby facilitating the fulfilment of the tasks facing the country in building a communist society.

The mode of production of the material wealth, being a unity of the productive forces and the relations of production together with the corresponding superstructure, constitutes the *socio-economic formation*.

During the history of mankind there have been five socio-economic formations: the *primitive-communal*, *slave-owning*, *feudal*, *capitalist* and *communist*, the first phase of the latter is socialism. Each of these has had its own corresponding economy, views, ideas and institutions. The development of the socio-economic formations proceeds from the lowest to the highest. Thus, feudalism made way for

capitalism, and capitalism for socialism, the first phase of communism. The establishment, development and collapse of socio-economic formations follow the laws of social development.

### The economic laws of the development of society

Marxism-Leninism teaches that nature and society must not be considered as a chance accumulation of isolated, unconnected phenomena. On the contrary, all natural and social phenomena are interconnected and interdependent. This deep link between phenomena is expressed in the laws of the development of nature and society. The purpose of science is to discover these laws.

The economic life of society is based on *economic laws*. These determine the great diversity of socio-production relations between people, i.e., in the sphere of production, distribution, exchange and consumption. The most important thing for political economy as a science is to discover and study the economic laws of the development of society.

The laws of nature and society have in common the fact that they are *objective in character*, i.e., they emerge and operate regardless of whether we know them or whether we desire the operation of a particular law. This means that people cannot change, transform or abolish these laws. Neither can they create new ones. People can only discover them. Yet the fact that these laws are objective does not mean that people are powerless before them: they can get to know them and use them in the interests of society. Thus, having understood the law of the correspondence between relations of production and the character of the productive forces, the proletariat in the socialist countries, together with the peasantry and under the guidance of communist and workers' parties, overthrew the power of the exploiters and began to build a new society.

Economic laws have a number of specific features distinguishing them from the laws of nature. The *first specific* of economic laws is that they are relatively shortlived and operate during a particular historical period. The operation of economic laws is based on specific economic conditions, meaning the relations of production and the basis of society. During the transition from one formation to another, the old relations of production are eliminated and replaced



with new ones. This accounts for the fact that one set of economic laws leaves the historical stage and new ones emerge to take their place.

The fact that, under capitalism, relations of production are based on private ownership of the means of production allows capitalists to exploit the working class and subordinate the entire development of production to their own enrichment in the form of profits. For this reason, the production of surplus value is the basic objective economic law of capitalism.

Private ownership of the means of production results in each capitalist striving to develop the branches of production that are most profitable for him, and this excludes the possibility of planned, balanced development of the national economy under capitalism. The capitalist economy develops on the basis of competition and anarchy of production. Consequently, competition and anarchy are also an objective law of capitalism.

When capitalist ownership of the means of production is abolished, the economic laws of capitalism also cease to operate. In the socialist countries, elimination of capitalist private ownership of the means of production leads to the emergence of new economic laws, while the old ones cease to operate.

The basis of the socialist relations of production is public socialist ownership of the means of production. Under socialism, the working people themselves are the owners of the means of production. They work for themselves, for their own society, so the development of production is subordinated here to increasing satisfaction of the material and cultural requirements of society. Ensurance of the fullest satisfaction of the material and cultural requirements of the whole of society is the basic, objective economic law of socialism.

Public socialist ownership of the means of production combines the entire socialist national economy into a single organism, a single national-economic complex. Such an economy can develop only according to a plan. The *planned, balanced development of the national economy is an objective economic law of socialism.*

Many economic laws operate within each socio-economic formation. Those that are inherent in only one formation are called specific economic laws. Among these it is possible

to identify the basic economic law determining the goal pursued by society, and the means used for attaining this goal.

In addition to specific economic laws, there are general ones inherent in all socio-economic formations. These include, for example, the law of the correspondence between relations of production and the character and level of development of the productive forces. It expresses the necessary links and interdependence between the two aspects of social production—the productive forces and relations of production. Apart from general and specific laws, there are some that are inherent in just a few stages in the development of social production. For example, the law of value operates only in those formations where there is commodity production.

The *second specific* of economic laws applies to the way they are used in the interests of society. In contrast to laws in the natural sciences, where the discovery and application of a new law takes place more or less smoothly, in the economic sphere the discovery and application of a new law meet with fierce resistance on the part of obsolescent forces. The use of economic laws in a class society has a class character.

Such are the specifics of economic laws in contrast to the laws of nature.

The economic laws may, under all modes of production, operate and manifest themselves either spontaneously, or as recognised necessity, i.e., they are applied consciously.

In antagonistic socio-economic formations, where private ownership of the means of production predominates, economic laws operate spontaneously, whether they are known or not. Under capitalism, for instance, the production process is social in character, and all branches are interlinked and interdependent. But this social character of the production process is based on private property, i.e., in his own enterprise, each capitalist pursues his own selfish goals of becoming richer and strives to gain more profits. The necessary link and proportions between branches of production take shape randomly, through countless and constant divergences: today there is a glut of one type of product, tomorrow it is in short supply, and so on. For this reason, in relation to each capitalist, economic laws operate as a superior force that cannot be brought under control. In individual instances, of course, capitalists may come to

realise the economic laws of capitalism, but they are powerless to change the spontaneous nature of their operation.

Under socialism, the presence of public ownership of the means of production ensures that economic laws are understood and applied consciously in the interests of society.

In a socialist society, the application of the objective economic laws requires conscious, organised and vigorous activities by all the working people. The communist and workers' parties play a tremendous role in the cognising and application of the objective economic laws in the interests of building a communist society.

### Definition of the subject-matter of political economy

Political economy studies the *basis of the development of society*. This is the production of material wealth, the mode of production. But political economy studies production only from the point of view of the economic relations between people in the production process. It studies the basis of society. "It is not with 'production' that political economy deals, but with the social relations of men in production, with the social system of production",<sup>1</sup> Lenin wrote. At the same time, political economy has to take account of the interlinks between the productive forces and relations of production. Neither can it isolate itself totally from the superstructure, for this grows up from the basis and exerts a strong impact on it.

The subject-matter of political economy is, therefore, the *production (economic) relations between people*. These include: the forms of ownership of the means of production; the position of the various classes and social groups in production and their interrelations; the forms of distribution of the material wealth.

*Political economy is, therefore, the science of the development of socio-production, i.e., economic relations between people. It clarifies the laws governing production, distribution, exchange and consumption of the material wealth in human society at various stages of its development.*

<sup>1</sup> V. I. Lenin, "The Development of Capitalism in Russia," *Collected Works*, Vol. 3, Progress Publishers, Moscow, 1977, p. 62-63.

It is clear from this definition of political economy that it is a historical science. It shows how society develops from lower to higher stages, how the entire course of historical development prepares the objective necessity of the triumph of the communist mode of production.

Political economy is a *class, partisan* science dealing with aspects of the economic interrelations between people and classes, and touching on their vital interests.

Is the collapse of capitalism and triumph of communism really inevitable? Bourgeois political economy naturally replies in the negative to this question, since it represents the interests of a system that long since began to act as a brake on social development and is doomed to perish.

Bourgeois economists were able to analyse reality more or less objectively while the bourgeoisie was still a rising class, and the development of capitalism was in the interests of social development. But this time has long since passed. Since the working class began to act as an independent force countering the bourgeoisie, and the development of the class struggle reached the stage when it began to predict the collapse of capitalism, bourgeois political economy has lost its scientific nature. Its task has been to use any means available to defend the obsolescent system of capitalism and struggle against the ideology of the working class.

Political economy was developed on a truly scientific basis by the leaders of the working class—Marx, Engels and Lenin.

The essence of pre-Leninist political economy is concentrated in *Capital*, Marx's main work. On the basis of the analysis of the capitalist system, in this work it is scientifically proved that the collapse of capitalism and establishment of the power of the proletariat, as well as the triumph of communism, are inevitable.

Under the new historical conditions under which Lenin lived and worked, he was able to continue the work of Marx and Engels and raise political economy to a higher stage. Lenin's historic contribution was that he created the scientific theory of imperialism, investigated its nature, contradictions and laws. Lenin's analysis of imperialism in the book *Imperialism, the Highest Stage of Capitalism* and other works is a direct continuation and further development of the ideas contained in Marx's *Capital*. Analysis of imperialism and, above all, Lenin's discovery of the law



of uneven economic and political development under capitalism in the age of imperialism provided the basis for the theory of the proletarian revolution.

Lenin showed that the revolution would triumph first in one or several countries. This brilliant discovery provided the foundations for the entire strategy and tactics of the Russian Communist Party during the preparations for and carrying out of the Great October Socialist Revolution, as well as the subsequent period of struggle for the victory of socialism in the USSR. It was Lenin who was the author of the political economy of socialism.

Marxist-Leninist economic theory is creatively developed in the decisions of the Communist Party of the Soviet Union, the communist and workers' parties of other countries and the works of Lenin's disciples. Elaboration of the following questions of vital importance is an example of the creative development of Marxism-Leninism as a whole and Marxist-Leninist political economy in particular: the question of the two phases in the development of communist society and the laws governing the growth of socialism into communism; of the creation of the material and technical base of communism; of the courses of development and drawing together of the two forms of socialist property; of the erasing of class distinctions and establishment of full social equality; of the formation of communist social relations; of the conditions for the implementation of the basic principle of communism "from each according to his abilities, to each according to his needs"; of the completion of the revolution in the sphere of culture and moulding of the new man, elaboration of the problems of the political organisation of society during the transition to communism.

The *method* of political economy is that of dialectical materialism which presupposes, *first*, investigation of the production relations in the process of their emergence and development, i.e., historically; *second*, consideration of this process as an objective reality, i.e., materialistically; *third*, revelation of the internal contradictions of development inherent in social production, i.e., dialectically.

What exactly is the significance of political economy?

The significance of Marxist-Leninist political economy is that it provides the working class and all working people with a knowledge of the laws governing the economic development of society and allows them to fulfil success-

fully the tasks facing them. It shows the working people of the capitalist countries the reasons for their enslavement, poverty and deprivations. It shows that oppression and impoverishment of the working class and all the working people depends on the arbitrary sway of the entire capitalist system rather than chance or the arbitrary will of individual capitalists. For this reason, only an uncompromising class struggle, elimination of capitalism and establishment of the power of the proletariat can liberate the working people from exploitation.

Marxist-Leninist political economy reveals to the people of the developing countries the true reasons for their backwardness and poverty. It shows that oppression and plunder of the peoples of the colonial and dependent countries is engendered by imperialism and its colonial system. For centuries, a handful of imperialist countries applied coercion and deception to enslave the vast majority of mankind in the colonial countries, reducing them to the status of slaves. Only a resolute struggle against imperialism and all its manifestations can put the peoples of the former colonies and dependent countries on the path to national independence and progress. Political economy shows the direction that the building of socialism and communism must take in the countries liberated from the oppression of capital. It reveals the advantages of the socialist economic system over the capitalist one and the inevitability of the victory of communism. A knowledge of the laws of political economy gives the popular masses an opportunity to take a conscious part in building communism, to develop the working people's initiative, teach them to work more productively. It helps to make all the working people active builders of socialism and communism.

Marxist-Leninist political economy is a powerful weapon in the hands of the proletariat and all working people for the struggle for peace, national independence, democracy and socialism.

## Chapter I

### PRE-CAPITALIST MODES OF PRODUCTION

In this chapter we shall consider briefly the emergence, development and reasons for the collapse of the primitive-communal, slave-owning and feudal modes of production.

#### 1. THE PRIMITIVE-COMMUNAL MODE OF PRODUCTION

Life appeared on Earth some 900 million years ago, and the first people over two million years ago.

Science explains the appearance of man on Earth in the following way. In various parts of Europe, Asia and Africa, where there was a warm climate, there were highly-developed species of monkey. Over a very protracted period of development, these monkeys developed into homo sapiens. The fundamental difference between man and animals appeared when man began to make tools, even the most primitive ones. The manufacture of tools or instruments of labour meant the beginning of human labour, as a result of which the monkeys' forelimbs gradually developed into human hands. As the hands were freed for labour activities, man's ancestors began increasingly to stand erect. As soon as even the simplest tools were made, the need arose for contact between primitive people in the labour process concerning the application of these tools. Human speech began to develop. Labour and speech exerted a decisive influence on the development of the brain.

Thus, it was labour that created man himself, and it was thanks to labour that human society emerged and began to develop.

The first socio-economic formation was the *primitive-communal system*, which lasted for many hundreds of thousands of years. This is the stage from which the development of society began. At first, people were in a half-savage state, powerless before the forces of nature. They ate a mainly vegetarian diet consisting of things found ready to eat in nature: roots, wild fruits, nuts, and so on.

Man's first tools were a roughly cut stone and a stick. Later, through a slow accumulation of experience, people began to produce simple tools for banging, cutting and digging.

The discovery of fire was of major significance in the struggle with nature. Fire made it possible for primitive people to diversify their diet. The invention of the bow and arrow constituted a new era in the development of primitive people's productive forces. As a result, people began to hunt animals and meat was added to their diet. The development of hunting gave rise to primitive live-stock-breeding and the hunters began to tame animals.

The beginning of land cultivation was another step forward in the development of the productive forces. Primitive farming remained at a very low level of development for a long time. The use of draft animals made farming more productive and provided it with a firm basis. Primitive people began to go over to a settled way of life.

The relations of production in primitive society were determined by the state of the productive forces. The basis of the relations of production was collective ownership by individual communes of the primitive means of production, in particular, instruments of labour. Collective ownership corresponded to the development level of the productive forces at this time. The instruments of labour in primitive society were so primitive that people could not fight the forces of nature and wild animals on their own, so they lived in groups or communes, and organised their economy (hunting, fishing, the preparation of food) on a joint basis. In addition to communal ownership of the means of production there was also private property belonging to members of the commune—certain tools, which were also weapons for defence against predators.

In primitive society labour was not very productive and



created no surplus product over and above the amount essential for life. Labour activities were based on simple co-operation, i.e., many people do the same jobs. There was no exploitation of man by man, and the egalitarian distribution of the scanty food between the members of the commune brought them all to the same level.

While people were gradually becoming isolated from the animal kingdom, they lived in "herds". Subsequently, when they began to hunt and farm, the clan organisation of society took shape, i.e., only people who were related combined their efforts in joint labour. At first, the clan consisted of several dozen people, but later grew to several hundred. As instruments of labour developed, a natural division of labour emerged within the clan between men and women, adults, children and old people. Men specialised in hunting and women in gathering food, which somewhat increased labour productivity.

At the first stage of the clan system, the head of the clan was the woman, who collected the food and dealt with domestic matters. This was the matriarchy or *matriarchal* clan. Later, when livestock-breeding and farming were taken over exclusively by the man the matriarchy was replaced by the patriarchy, where a man headed the clan.

The switch-over to livestock-breeding and farming was accompanied by the emergence of a *social division of labour*, i.e., one part of society began to concentrate on agriculture, the other on stock-raising. This separation of livestock-breeding from farming was the *first major social division of labour* in history.

The first social division of labour made people's labour more productive. A certain surplus of some products and demand for others appeared in the communes, and this laid the foundations for exchange between livestock-breeding and farming tribes. Later on, when people learned to smelt metal ores—copper and tin (iron smelting came later)—and fashion bronze tools, weapons, and vessels, and the invention of the weaving loom greatly facilitated the production of fabrics and clothing, some people in the communes gradually began to specialise in handicrafts, and their output more often to be offered for exchange.

The development of the productive forces increased considerably the productivity of human labour, man's power over nature and a certain supply of consumer goods. But

these new productive forces of society could no longer fit into the framework of the existing relations of production. The restricted nature of communal property, and the egalitarian distribution of products of labour began to act as a brake on the further development of the productive forces. The need for joint labour disappeared, and a need for and possibility of individual labour emerged. Joint labour had required collective ownership of the means of production, but individual labour required private ownership. Private ownership of the means of production arose and, together with it, property inequality both between clans and between people within the clan. Rich people and poor people emerged.

As the productive forces developed, man began to obtain more means of subsistence than were essential for his survival. Under these conditions it became possible to employ more workers. They were provided by wars, prisoners being made into slaves. At first, slavery was patriarchal (domestic) in character, but later it became the basis of the existence of a new system. Slave labour led to a further rise in inequality: a household using slaves quickly grew rich. Later, as property inequality increased, rich people began to enslave not only captives, but also members of their fellow tribesmen who had become impoverished or were in debt. Thus arose the first class division of society into slave-owners and slaves. Exploitation of man by man began. From this time on, right up to the establishment of socialism, human history is the history of a struggle between classes.

The growing inequality between people led to the formation of the state as an organ of oppression of the exploited class by the class of exploiters. Thus, *slavery* grew up on the ruins of the primitive-communal mode of production.

## 2. THE SLAVE MODE OF PRODUCTION

Slavery is history's first, most flagrant and overt form of exploitation. It existed virtually everywhere.

Slavery in Egypt, India and China existed from the 4th to 2nd millennia B.C. In Greece it flourished most in the 5th and 4th centuries B.C. In Rome, the slave-owning system reached the peak of its development in the period from the 2nd century B.C. to the 2nd century A.D.

The further growth of the productive forces and development of the social division of labour and exchange underlay the transition from the primitive society to slavery.

What exactly were the productive forces like at that time? During the age of the primitive society, instruments of labour had been made mostly of stone, but during the age of the slave-owning system iron smelting was discovered and iron tools began to predominate. Metal tools brought an expansion of the bounds of human labour. Using a metal axe, it became possible to fell trees and remove bushes from arable land; the iron ploughshare made it possible to work large plots of land. Farming began to provide not only grain and vegetables, but also wine and oils. The fashioning of metal tools led to the emergence of a special group of people—craftsmen—whose labour became increasingly independent. The *second major social division of labour* took place—the separation of crafts from farming.

This process was accompanied by a further development of exchange, which engendered money. Money became a universal commodity for evaluating all other commodities and acting as a medium of exchange. The growth of the division of labour and exchange gave rise to the appearance of people who specialised in buying up and selling commodities. This was the *third major social division of labour*—the emergence of the merchant's activities. Taking advantage of the small producers' isolation from the market, merchants bought up their commodities at low prices and sold them in the market at higher ones.

The development of crafts and exchange entailed the formation of towns. At first these differed little from the villages, but gradually they began to be centres where crafts and trade became concentrated. This paved the way for the separation of the towns from the villages.

The development of the productive forces, the further social division of labour and exchange increased property inequality even more. On the one hand, rich people appeared who concentrated the draft cattle, instruments of labour and money in their own hands; on the other—poor people, who became poorer and poorer and were compelled to turn to the rich for loans. Usury emerged—the debtor and the creditor. "The class struggles of the ancient world took the form chiefly of a contest between debtors and creditors, which in Rome ended in the ruin of the

plebeian debtors. They were displaced by slaves."<sup>1</sup> Rich slave-owners began to own hundreds and thousands of slaves. They seized vast areas of land and large slave-owning estates thus took shape (in Ancient Rome they were called *latifundia*). Huge numbers of slaves worked on these estates.

The relations of production in slave society were based on the slave-owners having in their possession both the means of production (the land, instruments of labour, and so on) and the production workers—the slaves. The slave was considered as no more than a thing; he was completely and undividedly at the disposal of his master. Slaves were called speaking tools. In the eyes of slave society, the slave differed from an axe or ox only in that he could speak. In all other respects, however, he belonged to his master in just the same way as cattle, land or tools.

The exploitation of slaves was extremely severe. They were treated worse than cattle: they were driven to work by the whip and for minor omissions were cruelly punished or even killed. The killing of a slave was not considered as murder. The slave-owner assimilated the entire product of slave labour, while the slave received the most meagre quantity of means of subsistence as to prevent him from dying from hunger and to allow him to continue working for his master.

On the basis of the simple co-operation of slave labour, the ancient world made a significant economic and cultural advance. Ancient culture grew up on the skeletons of generations of slaves. Many branches of knowledge (mathematics, astronomy, mechanics and architecture) made great strides forward. Yet, in spite of its achievements compared with the primitive-communal system, the slave mode of production was a hindrance to the further development of mankind.

The slave mode of production contained deep and insuperable contradictions, which eventually led to its collapse. Above all, the slave form of exploitation destroyed the slaves—the main productive force of society, so the slaves often rose up against these barbaric forms of exploitation. An influx of slaves obtained through successful warfare was a condition for the existence of the slave economy. The main forces for the waging of wars were the peasants

<sup>1</sup> K. Marx, *Capital*, Vol. I, p. 135.



and craftsmen, who served in the armed forces and bore the burden of the taxes required for waging the wars. As a result of competition of large-scale production based on cheap slave labour, however, the peasants and craftsmen were ruined. This undermined the economic, political and military might of the slave state. Victories were succeeded by defeats and the constant source of additional cheap slaves dried up, the result being a production recession.

"Universal impoverishment; decline of commerce, handicrafts, the arts, and of the population; decay of the towns; retrogression of agriculture to a lower stage—this was the final result of Roman world supremacy."<sup>1</sup>

When it emerged, the slave mode of production furthered the growth of the productive forces, but its later development, as we have seen, destroyed these productive forces. For this reason, the relations of production based on slave labour became a brake on the development of the productive forces of society. The labour of slaves, who had absolutely no interest in the result of production, became obsolete. A historical necessity arose for the slave-owning relations of production to be replaced by others that would change the position of society's chief productive force—the slaves.

With the decline of the latifundia based on slave labour, small ones became more profitable, so the number of freed slaves increased and, at the same time, the latifundia were broken up into small plots worked by coloni. A colonus was no longer a slave, but a tiller of the soil who received a plot of land for life-long use and paid a certain amount in money or in kind for this privilege. The colonus was not a free tenant; he could not leave the plot of land to which he was attached, and he could be sold together with the plot. Coloni were the forerunners of the medieval serfs.

Thus, the new, *feudal mode of production* began to take shape within the slave-owning system.

As the slave economy developed, the class struggle between oppressed and oppressors grew in intensity. This struggle developed into slave uprisings against the slave-owners. The slaves were joined in their uprisings by free peasants and craftsmen, who were exploited by the big

landowners and the slave state. The most significant of the many slave uprisings was that led by Spartacus (74-71 B.C.).

Internal blows intertwined increasingly with ones from outside, and this brought about the final collapse of the slave-owning system.

### 3. THE FEUDAL MODE OF PRODUCTION

The feudal system existed, in various versions, in almost all countries. The feudal age was a long one: in China the feudal system lasted over two thousand years; in the countries of Western Europe feudalism existed from the fall of the Roman Empire (5th century A.D.) until the 17th century in Britain and the 18th century in France. In Russia, feudalism lasted from the 9th century until the abolition of serfdom in 1861.

In Western Europe, feudalism took shape as a result of the interaction of two processes: the decline of the Roman slave state, on the one hand, and the disintegration of the clan system in the conquering tribes, on the other.

As already noted, elements of feudalism in the form of colonies had appeared even under slavery, but the slave-owning Roman Empire fell at the end of the 5th century A.D. under the impact of both internal and external blows. Ceaseless wars were waged against slave-owning Rome by the Germans, Galls and other peoples. This struggle ended in victory for the Germans, Galls, Slavs and other peoples living in various parts of Europe.

Until they conquered Rome, the victorious tribes had clan systems but owing to the centuries of struggle the clan systems of these tribes were primarily military in character. The tribe was headed by military leaders and their personal guard. After conquering Rome, the Germans and Galls took two-thirds of the Romans' land, together with the coloni who were working it. This land was distributed among clans and individual latifundia. A substantial part of the land went to the military leaders, the strongest of whom later became kings. The military leaders handed over the seized land to their combatants for life-long use, and later as inheritable property together with the peasants living on it. The plots of land handed out on these terms were called fiefs, and the people who received them—feu-

<sup>1</sup> F. Engels, *The Origin of the Family, Private Property and the State*, Progress Publishers, Moscow, 1972, p. 146.

dal lords. Those who received land had to do military service. The land continued to be worked by small peasants, but they were now personally dependent on their new masters.

The feudal lord's private ownership of the land and his partial ownership of the serfs provided the basis for the relations of production in feudal society. The serf was not a slave for he had his own household. Alongside the property of the feudal lords there existed the property of the peasants and craftsmen—tools and their private holdings. The small peasant holding and the production of independent small craftsmen were based on personal labour, production was primarily subsistent in nature, i.e., the products were mainly produced for personal consumption rather than for exchange.

Large-scale feudal landownership underlay the exploitation of the peasants by the landowners (feudal lords). Some of the feudal lord's land constituted the feudal estate, while the rest was allocated to the peasants on conditions of bondage. This was a condition for the landowner to be provided with a labour force. The peasants inherited the plots of land were obliged either to work the landowner's land using their own implements (labour rent or *corvée*), or hand over part of their output in kind to the landowner (rent in kind or quit rent), or to do both. Later, instead the feudal lords began charging money rent. This system led not only to an overt form of exploitation, but also inevitably presupposed the personal dependence of the peasant on the landowner. The feudal lord could not kill his peasants, but he could sell them. There was non-economic coercion of peasants to work for the feudal lords.

The working time of the peasant serf was divided into two parts: the necessary and the surplus. During the necessary time, the peasant produced what was needed for his own subsistence and that of his family. During the surplus time, he created surplus product, which was appropriated by the feudal lord in the form of land rent (labour rent, rent in kind or in money). The exploitation of the peasants in the form of land rent constituted the main feature of feudalism everywhere.

The towns, where mostly craftsmen and merchants lived, were subordinate to the power of the feudal lords on whose land they were situated. Their populations fought

to liberate themselves and often won the towns' independence. The growth of towns and the development of trade exerted a strong influence on the feudal countryside. The economies of the feudal lords were drawn into market circulation. In order to buy luxuries, the feudal lords needed money, so they increasingly introduced money rent to replace labour rent or rent in kind. This entailed an intensification of feudal exploitation and of the struggle between the feudal lords and the peasant serfs.

#### 4. THE DISINTEGRATION AND COLLAPSE OF FEUDALISM. THE EMERGENCE OF CAPITALIST RELATIONS OF PRODUCTION WITHIN THE FEUDAL SYSTEM

A higher level of the productive forces was achieved under feudalism than under slavery. In agriculture, production techniques improved and the iron plough and other iron tools became widespread. New branches of field cultivation emerged; viticulture, wine-making and horticulture developed substantially. Livestock-breeding and related branches—butter and cheese-making—also grew. Meadows and pastures expanded and improved.

In the sphere of handicrafts, in the towns, there was a gradual improvement in the tools, methods of working raw materials and craft specialisation. New crafts appeared—weapon, nail, and knife making, smithing, cobbling, saddlery, and so on. The smelting and working of iron advanced. In the 15th century, blast furnaces appeared; the compass was invented and the great geographical discoveries were made.

But the feudal system, under which these new productive forces emerged, hampered their further development: the productive forces came up against the narrow bounds of the feudal relations of production. The peasantry, oppressed by feudal exploitation, was unable to increase agricultural output since the productivity of serf labour was very low. In the towns, the growth of the craftsman's labour productivity came up against obstacles raised by guild



rules. All this required the elimination of the old relations of production and the establishment of new ones, free from feudal bondage.

During the feudal age, primitive commodity production, i.e., the production of goods for exchange, gradually expanded, but it was based on private ownership of the means of production and on personal labour. There was fierce competition between the producers of commodities. This led to their stratification into rich and poor in both the town and countryside. As the market expanded, the more or less big commodity producer began increasingly often to hire ruined peasants and craftsmen. Thus, capitalist relations gradually began to take shape within the feudal system.

Capitalism also developed in another way. Commercial capital, represented by merchants, began to subordinate directly the production of the peasants and craftsmen. Initially, the merchant acted as a middleman in the exchange of commodities, but later he began to buy up the small producers' commodities on a regular basis, provide them with raw materials, and lend them money. Thus, the small producers became economically dependent on the merchant. The next step made by commercial capital was to gather together the isolated craftsmen in one building, where they now worked as wage workers. Commercial capital became industrial capital and the merchant an industrial capitalist.

Capitalism also began to emerge in the countryside. As commodity production developed, so did the power of money, and the feudal lords began to go over to money rents. The development of money relations provided an impetus to the stratification of the peasantry into the rural bourgeoisie and ruined peasants.

Thus, capitalist production grew up within the feudal system in both town and village. The end of feudalism became a historical necessity.

The entire history of feudalism was one of fierce struggle between peasants and feudal lords, and this struggle became particularly intense towards the end of the feudal age. The peasants' uprisings shook the feudal system and led to its collapse. The struggle against the feudal lords was headed by the bourgeoisie, who made use of the serfs' uprisings against the feudal lords to seize political power and become the ruling class.

## REVISION EXERCISES

1. How did primitive society emerge?
2. What were the productive forces and relations of production of the primitive-communal mode of production?
3. What were the reasons for the disintegration and collapse of the primitive-communal mode of production?
4. What were the productive forces and relations of production under slavery?
5. What were the reasons for the disintegration and collapse of the slave-owning mode of production?
6. What were the relations of production during the period of feudalism?
7. What were the reasons for the disintegration and collapse of the feudal mode of production?
8. In what ways did capitalist relations emerge within feudalism?

## THE CAPITALIST MODE OF PRODUCTION

The capitalist mode of production, as we have seen, emerged within feudalism. During its development, capitalism has gone through two stages: *pre-monopoly capitalism* and *monopoly capitalism* or *imperialism*.

Both of these stages have one and the same economic basis—private ownership of the means of production and exploitation of wage labour. But there are differences between pre-monopoly capitalism and imperialism.

Pre-monopoly capitalism is the period in the development of capitalism when there is free competition and the productive forces develop more or less smoothly. In the USA, Britain, France and other developed countries, pre-monopoly capitalism dominated until the last thirty years of the 19th century.

Since 1870 onwards, processes began to develop in the economies of the capitalist countries that gave pre-monopoly capitalism new features; free competition was replaced by monopoly domination. Monopolies began to play the decisive role in the economic life of the capitalist countries. At the turn of the century, pre-monopoly capitalism turned into imperialism—the highest and last stage in capitalism's development.

## A. PRE-MONOPOLY CAPITALISM

### Chapter II

## COMMODITY PRODUCTION. THE COMMODITY AND MONEY

Marx begins his analysis of capitalism with the commodity. Under capitalism, everything, from the smallest pin to a huge factory, and even man's labour power, is bought and sold or, as the economists put it, takes the form of a commodity. The relations between people in society take the shape of relations between commodities. The commodity, as Marx points out, is the economic cell of bourgeois society. Just as a drop of water reflects everything around it, the commodity reflects the main contradictions of capitalism.

Investigation of the commodity and commodity production allowed Marx to clarify the essence of capitalist relations of production.

### 1. THE GENERAL CHARACTER OF COMMODITY PRODUCTION

#### The concept of commodity production

*Commodity production* is the manufacture of goods not for personal consumption, but for sale, for market exchange. "By commodity production", Lenin wrote, "is meant an organisation of social economy in which goods are produced by separate, isolated producers, each specialising in the making of some one product, so that to satis-



fy the need of society it is necessary to buy and sell products (which, therefore, become commodities) in the market."<sup>1</sup>

Commodity production arose in very ancient times, during the disintegration of the primitive-communal system. At the last stage in the development of primitive society, as we have seen, the first major social division of labour took place. Two branches of production appeared—farming and livestock-breeding. In order to satisfy people's requirements, exchange was necessary. Farming tribes needed the products of the livestock-breeding ones, and vice versa, so those that had surplus products exchanged them. Thus, commodity production became dominant.

After emerging during the disintegration of the primitive-communal system, commodity production existed under both the slave and feudal modes of production, but subsistence economies still predominated. This means that each economic unit carried out all types of work, from obtaining various types of raw material to processing them for its own consumption. This type of economy, with mainly surpluses being exchanged, predominated right until the emergence of capitalism.

The development of capitalism dealt a final blow to the subsistence economy. Under capitalism, all the products of labour, as well as the land and labour power, assume the form of commodities. When labour power becomes a commodity, commodity production becomes universal in character and now predominates.

Since, under capitalism, the manufacture of commodities becomes the predominant form of production, the relations between people in the process of social production, i.e., relations of production, are expressed in commodity relations. In fact, let us take the chief production relation in capitalist society—the relation of exploitation of the proletariat by the bourgeoisie. In order that the capitalist might exploit the worker, the latter has to sell his labour power, which acts as a commodity. The capitalist pays the worker a wage, with which the worker buys means of subsistence—commodities. Thus, the relations of production between the worker and the capitalist are not direct; they pass through the

<sup>1</sup> V. I. Lenin, "On the So-Called Market Question", *Collected Works*, Vol. 1, Progress Publishers, Moscow, 1977, p. 93.

medium of commodities and assume the character of commodity relations.

The capitalists sell one another their products and buy raw materials, equipment and other commodities from one another. The relations between capitalists also assume a commodity character.

Consequently, *in capitalist society, commodity production acquires a general, dominating character, while the relations between people operate as relations between things or commodities.*

### The conditions for the rise of commodity production

Commodity production emerges only under certain conditions. The main condition for the emergence and existence of commodity production is the *social division of labour*. This means that the production of the various products is divided between individual people or groups of people. For example, some people produce fabrics, others—footwear, yet others—domestic items, another group—instruments, and so on. It is obvious that, in order to satisfy their requirements, these people must *exchange* the results of their labour. Thus all the producers, taken together, constitute, as it were, a large production collective whose members depend on one another.

But the social division of labour is only one of the conditions for the existence of commodity production. Another essential condition is the presence in society of *various (isolated) owners* of means of production. Let us imagine that a person has made something and wants to sell it. Can he do this? Yes, provided he is the owner of the means of production that he used to make the thing and, consequently, the owner of the thing itself. Within primitive communes, for example, in spite of the existence of the division of labour, there was no commodity production or commodity exchange. The members of the commune exchanged the results of their own labour, but they did not sell things to one another, since it was the commune as a whole that owned the means of production and the products of labour. It was a different matter when communes exchanged with one another. In this case a change of ownership took place and the product of labour was a commodity.

And so, social division of labour and the presence in society of various owners of means of production provide the basis for commodity production. Only given both these conditions do commodity production and exchange of products in the form of sale and purchase take place.

There are two main types of commodity production based on private ownership of the means of production—simple and capitalist.

### Simple and capitalist commodity production

Capitalist commodity production emerges under certain social conditions on the basis of *simple commodity production*.

The most characteristic representatives of simple commodity production are small peasants and craftsmen. They base their production on *personal* labour, i.e., they themselves work, without exploiting the labour of others. Each simple commodity producer is a *private owner of means of production*, and he carries out production not for his own consumption, but for the market, for sale.

Simple commodity production is dual in nature. On the one hand, in as far as it is based on private property, the small peasant or craftsman is an owner, and this draws him closer to the capitalist. On the other hand, in as far as simple commodity production is based on personal labour, the commodity producer is a labourer, which draws him closer to the proletarian who, in contrast to the simple commodity producer, does not have any means of production of his own. Herein lies the community of interests of the working class and the peasantry and the possibility of an alliance between them.

Under certain social conditions, simple commodity production serves as the point of departure and basis for the emergence of capitalist production. There are two such conditions. First, *private ownership of the means of production*. As we have seen, this condition emerged during the disintegration of primitive society. Second, *conversion of labour power into a commodity*. This was completed during the disintegration of feudal society.

Simple commodity production is not stable; a differentiation constantly takes place among the peasants and crafts-

men, i.e., there is a stratification between those (the minority) who get rich and the rest (the majority) who become poorer and poorer. The peasants and craftsmen who are ruined become proletarians. Under the conditions mentioned above, these processes led to the formation of a bourgeoisie and a proletariat in both town and village.

Capitalist commodity production, like simple commodity production, is based on social division of labour and private ownership of the means of production; it is not, however, based on the personal labour of the owner of the means of production, but on *exploitation of wage labour*. Under capitalist commodity production, the capitalist has the means of production and money at his disposal. With his own money he buys labour power, which puts the means of production in motion. The transmutation of labour power into a commodity means that, under capitalism, commodity production develops further and becomes universal. The exchange of commodities, Lenin wrote, is the "simplest, most ordinary and fundamental, most common and everyday relation of bourgeois (commodity) society".<sup>1</sup> This is why we must clarify exactly what a commodity—this economic cell of capitalism—really is.

## 2. THE COMMODITY AND LABOUR CREATING COMMODITIES

### The use value and value of a commodity

A *commodity* is a thing that, first, satisfies some human need and, second, is produced not for personal consumption, but for sale or exchange.

The person who produces an object for his own consumption is producing only a product, not a commodity. In order for the product to become a commodity, it must satisfy some social need, i.e., a requirement for it on the part of other members of society.

There are two closely interlinked aspects of the commodity: use value and value.

<sup>1</sup> V. I. Lenin, "On the Question of Dialectics", *Collected Works*, Vol. 38, Progress Publishers, Moscow, 1972, p. 360.



Since a commodity satisfies some human demand it is said to have *use value*. The needs satisfied by commodities may be extremely diverse. The commodity may be an essential, such as bread, clothing, or footwear. It may be a luxury—expensive wine, precious items, and so on. It may also be a means of production such as machines, coal, iron, etc.

Each thing may have several use values. Thus, coal may be used as a fuel or as a raw material for making chemical products.

The discovery of a use value, i.e., the utility of a thing for mankind, takes place during the historical development of society and is a result of the development of the productive forces. Coal, for instance, was used by man long ago. The development of science and technology allowed new qualities of coal to be revealed and it began to be used as a raw material for the chemical industry.

Under commodity production there is a continuous exchange of various use values in a specific quantitative ratio. One axe, for example, may be exchanged for 20 kg of grain. This quantitative ratio according to which one use value is exchanged for another is the *exchange value* of the commodity. Two questions arise when considering exchange value:

- (1) on what basis can commodities of different types be equated and
- (2) why are different commodities equated in *definite proportions*, in a definite quantity? If different, totally dissimilar commodities are equated in exchange, this means they have something in common. Even Aristotle noted that "exchange cannot take place without equality, and equality without comparability".

All commodities have the following qualities to some extent or another: utility, ability to be a subject of supply and demand, rarity and labour.

Which of these qualities determines a commodity's value?

At first glance it may seem that the utility of a commodity is behind its value: after all, the more useful and necessary a thing is, the higher its value must be. In reality, however, there is constant evidence that utility is not the reason for value. The most useful things are often either free of charge (such as air) or very cheap (such as water) where they occur in adequate quantities in nature, while things of little use to mankind often cost a lot (such

as diamonds). In fact, if products cost more, the more useful they were, bread and water would cost more than diamonds. Utility, or use value, is, therefore, a condition of and not the reason for value. Although value cannot exist without use value, the latter is quite possible without value (for example, air has considerable use value but no value).

Can supply and demand determine the magnitude of value? At first sight it might seem so. The greater the demand for commodities, the higher, of course, are the prices charged for them, and vice versa: the greater the supply of a commodity, the more there is of it on the market, the lower its price.

Going deeper into the question, however, it becomes clear that the value of commodities does not depend on supply and demand. Let us take, for example, sugar and salt. Both of these goods are equally subject to the law of supply and demand. If the demand for them is equal to the supply, the value of a kilogramme of sugar is still incomparably higher than that of a kilogramme of salt. This means that supply and demand have nothing to do with it. True, the size of the supply and the demand do influence the prices of commodities: it is not, however, the magnitude of the value they determine, but the degree of divergence of market prices from the value of commodities. With an increase in the demand for a commodity and a drop in the supply of it, market prices rise above value, and, in the opposite case, when demand diminishes and supply rises, they fall below value. Only when supply equals demand do market prices correspond to value. Yet such a situation is hardly ever encountered in capitalist commodity production, so supply and demand do not determine value.

Can the rarity of commodity determine its value? There are thousands of examples in reality to show that it can. Take, for instance, gold, diamonds and bread. The first two are rare, and very expensive. There is a lot more bread around, and it is much, much cheaper although it is of considerably more use to people. This does not mean, however, that rarity is the reason for greater value. For example, when there is no rain for several years people long for it—the "demand" for it is tremendous, but in spite of all its rarity and utility, and the need for it, it still has no value that can be expressed in money terms.

Consequently, neither utility, nor the ability to be the subject of supply and demand, nor rarity are the reason for value. The only common denominator left is *labour*, and it is indeed labour that is the basis, or, as Marx puts it, the substance of value. The more labour is required to produce a particular commodity, the greater the latter's value and the more expensive it is. Gold is more expensive than coal because considerably more labour is used in finding gold and purifying it than in extracting the same quantity of coal.

All commodities are the result of human labour. They are mutually comparable because they all include a certain quantity of embodied labour. The fact that commodities are the products of labour makes them values.

*Value* is the social labour of commodity producers embodied in a commodity. The term "embodied" stresses the fact that the labour included and embodied in the commodity has assumed the form of a thing or a commodity itself. The quantitative relations and proportions in which commodities are exchanged constitute a form in which value is manifested; they show that equal amounts of labour have been spent on the exchanged items and that they are of equal value.

The value of a commodity is a *social* category; it is not visible, but it makes itself felt every time once commodity is exchanged for another and commodities are equated with one another. This is why Lenin said that "value is a relation between two persons ... a relation concealed beneath a material wrapping".<sup>1</sup>

Use value has always existed and will always exist, but the commodity as a value appeared at a certain stage in the development of society, together with commodity production and exchange. When commodity production dies out, so will the value of the commodity. Consequently, value is a social and historical category, i.e., it exists at a specific stage in the development of society.

Although a commodity is a unity of two aspects (use value and value), this unity is contradictory. How is this seen?

As use values, commodities are qualitatively heterogeneous (wheat, cloth, iron and so on), while as values they are

qualitatively homogeneous (they are all products of human labour). As use values, commodities are intended for consumption; as values they are intended for sale. The producer of the commodity is interested in the value (and not the use value), but in order for commodity to be realisable as a value, it must be a use value, i.e., there must be a demand for it on the part of the other members of society. As a use value, the commodity is tangible, while its value is not. Such are the contradictions between the use value and value of the commodity.

Thus, we have seen that the commodity has two qualities: it is a unity of use value and value.

What is responsible for the dual nature of the commodity?

### Concrete and abstract labour

The dual nature of the commodity is explained by the twofold character of the labour that produces the commodity. The labour of the commodity producer, as embodied in the commodity, on the one hand, acts in the form of concrete labour and, on the other, in that of abstract labour.

*Concrete labour* is labour spent in a specific, purposeful and useful form. A person cannot work "in general". When he performs a particular job, it is the work of a cobbler, a farmer, or miner, etc.

Various forms of labour differ in quality, the skills, instruments and materials used, and finally, their results, i.e., the products, use values. *Concrete labour creates the use value of the commodity.*

But looking closer at the various types of labour, a feature common to them all is discovered—the expenditure of human labour in general, i.e., the expenditure of the energy of muscles, the brain, nerves, and so on. Labour considered in isolation from its concrete form, labour as the expenditure of human labour power, is abstract labour. *Abstract labour forms the value of the commodity.*

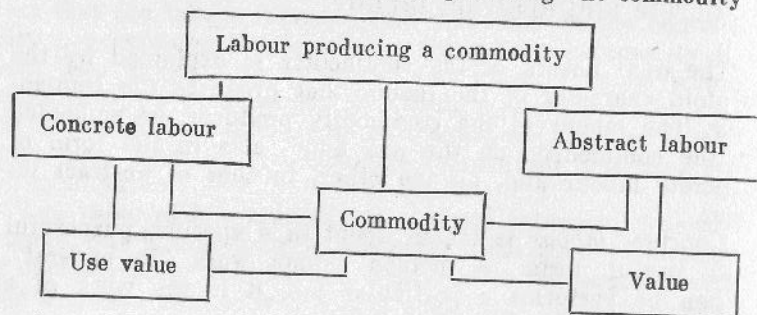
Concrete labour, as the creator of use value, has always existed and will always do so—both under commodity production and in its absence. Abstract labour is inherent only in commodity production. The reduction of the various types of concrete labour to one and the same abstract la-

<sup>1</sup> V. I. Lenin, "Karl Marx", *Collected Works*, Vol. 21, Progress Publishers, Moscow, 1974, p. 60.



bour, labour in general, is connected with the existence of commodity production, with the fact that the product is made for sale. In fact, if the commodity producer has made, for example, boots, how can he exchange them for, say, grain on the market? As use values, these products are incomparable. This means that they can only be compared according to the amount of labour spent on them. If, for instance, the cobbler exchanges a pair of boots for 100 kg of grain, this means that equal amounts of abstract labour are spent on the boots and the grain. If the boots were made not for exchange but for the use of the cobbler's family, there would be no need to determine how much abstract labour was embodied in them. When commodity production dies out, so does the category of abstract labour.

#### The twofold nature of the labour producing the commodity



In simple and capitalist commodity production there is an antagonistic (irreconcilable) contradiction between concrete and abstract labour. This is manifested as a contradiction between private and social labour.

#### Private and social labour

Under the conditions of commodity production, each commodity producer puts out a specific type of commodity. There is division of labour in society and, the deeper it is, the more branches of production there are, the broader the commodity producers' contacts, and the stronger their all-round dependence on one another. Dozens and even hundreds of people of diverse trades take part in the manufacture of almost any item. This means that the labour

of each commodity producer is a part of social labour and is *social in character*.

Yet, in a society where there is private ownership of the means of production, the commodity producers operate in isolation from one another; they are disunited. Their labour, which is essentially social, therefore takes the form of private labour. The social character of labour is hidden here, and it only appears in the exchange of goods on the market. It is in the exchange of commodities through sale and purchase that it becomes clear that the private labour of the given producer is a part of social labour, since it is necessary for society.

Since the producer's labour is private and social in character, there appears the *basic contradiction of simple commodity production—that between private and social labour*. This contradiction is revealed during exchange. When the producers come to the market, some of them can sell their goods, while others cannot. They cannot sell them either because there is no demand for them or because they are too expensive. If, however, the producer does not realise his commodity, this means that his private labour has not found social recognition; the producer makes a loss and, if this happens frequently, he is ruined. Consequently, the contradiction between private and social labour leads to the ruin of some producers and the enrichment of others.

#### The magnitude of the value of the commodity

Since the value of a commodity is created by labour, the magnitude of the value is measured by the *amount of labour embodied in the commodity*. But there are many producers and they spend different amounts of labour on producing identical commodities. For this reason, the value of a commodity cannot be measured by the actual expenditure of labour by each individual producer. If the magnitude of the value of the commodity were determined by the physical expenditure of labour by each individual producer, there would be no single magnitude for the value of identical commodities. In reality, however, identical commodities have equal values in exchange. The magnitude of the value of a commodity is determined by the expenditure not of individual labour, but of socially necessary labour,

measured not by the individual labour time spent by each individual producer, but the labour time that is *socially necessary* to produce the given commodity.

By *socially necessary* labour time we mean the time required to produce a unit of the commodity under average, socially normal production conditions in the given industry (standard of technology, producers' skill, labour intensity). As a rule, socially necessary labour time is determined by the conditions of production under which the greatest quantity of commodities of the given type are produced.

Socially necessary labour time is constantly changing, so the magnitude of value is, too. The change in the socially necessary labour time is a consequence of a change in labour productivity. *The productivity of labour is expressed in the quantity of output created per unit of labour time* or is determined by the amount of labour time spent per unit of the product of labour. A rise in the productivity of labour means any change at all in the labour process that reduces the expenditure of labour per unit output. The higher labour productivity, i.e., the greater the output that can be produced during a given period of time, the lower the value of the commodity. And, vice versa, the productivity of social labour will be lower, the greater the socially necessary labour time required to produce the given commodity, in which case the value of the commodity will be higher. Consequently, the labour productivity and value of each unit of the commodity are inversely dependent on each other. If labour productivity rises, the value of the commodity falls, and the opposite: if labour productivity falls, the value of the commodity rises.

The productivity of labour must be distinguished from the intensiveness of labour. *Labour intensity is expressed in the expenditures of labour per unit of time*. The more labour is spent over a given period of time, the more output is produced, but the value of the commodity may not change, since a larger amount of labour is now distributed over a larger quantity of output.

The magnitude of the value of the commodity is affected by the *complexity of labour*. Labour is divided into skilled and unskilled according to its complexity. The labour of a worker who has not undergone any special training is *simple* (unskilled) labour. That requiring special training is *complex* (skilled) labour. Complex labour creates more value per unit of time, which is why Marx says that com-

plex labour acts as simple labour raised in degree or multiplied.

In commodity production based on private property the reduction of different types of labour, labour requiring different degrees of skill and of different productivity, to a common denominator, the abstract labour, forming the value of the commodity, takes place spontaneously on the market during the sale of the commodity. The value expresses the relations of production between the producers, the mutual exchange of their activities. Superficially, however, these relations are relations between things.

### 3. THE DEVELOPMENT OF EXCHANGE AND THE FORMS OF VALUE

Exchange value—the form of manifestation of value

The value of a commodity is created by the labour spent on producing it, but the value reveals itself only when one commodity is equated to another in the process of exchange, i.e., through exchange value. Thus, the value of one commodity cannot be expressed directly in terms of labour time; it is expressed through the medium of another commodity. For instance, one axe = 20 kg of grain. Here the grain serves as a means for expressing the value of the axe. This equation states that equal amounts of labour were spent on producing 20 kg of grain and one axe. A commodity that expresses its value in terms of another commodity (in our example, the axe) has *relative* form of value. The commodity, whose use value serves as a means for expressing the value of another commodity (in our example, the grain), has an *equivalent* form of value.

Exchange value has developed considerably through history from an elementary, accidental form of value to the money form of value.

The elementary form of value

In subsistence production, when the products were produced for personal consumption rather than for exchange, only chance surpluses of products were exchanged. The



quantity of products exchanged was limited. One particular good was exchanged directly for another one and expressed its value only in terms of the other one. For example, one axe = 20 kg of grain, or  $x$  of commodity  $A = y$  of commodity  $B$ . Since exchange was chance in character, no identical form of measurement was developed for the magnitude of the value of the commodity. Here we are dealing with the elementary, one-time or accidental form of value.

### The total or expanded form of value

Under the primitive-communal system, when the first major social division of labour took place—the separation of livestock-breeding from farming tribes, and also various crafts began to develop—more and more commodities began to be offered for exchange: livestock, grain, and so on. Exchange between producers became a regular thing, but, in the exchange of commodities, it became increasingly clear that many people wanted one particular commodity, which happened to be livestock. Livestock was equated to and exchanged for many other commodities. For example,

$$1 \text{ sheep} \left\{ \begin{array}{l} = 40 \text{ kg of grain} \\ = 20 \text{ m of cloth} \\ = 2 \text{ axes} \\ = 3 \text{ gr of gold} \\ = x \text{ of commodity } A, \text{ etc.} \end{array} \right.$$

This form in which the value of one commodity can be expressed in a multitude of other commodities is called the total or expanded form of value.

### The general form of value

As commodity production and exchange developed, the commodity for which there is the greatest demand gradually comes to stand out among all the others. All commodities begin to express their value in terms of one and the same particular commodity. A commodity that serves to express the value of many other commodities is a universal equivalent, i.e., of equal value for any other commodity. When the universal equivalent appears there is

a transition from the expanded form of value to the general form of value, which can be expressed thus:

$$\left. \begin{array}{l} 40 \text{ kg of grain} \\ 20 \text{ m of cloth} \\ 2 \text{ axes} \\ 3 \text{ gr of gold} \\ x \text{ of commodity } A, \text{ etc.} \end{array} \right\} = 1 \text{ sheep}$$

The transition to the general form of value results in the appearance of the *circulation of commodities*. Now each act of exchange is divided into two stages—sale and purchase. At this stage, the role of the universal equivalent has not yet been assumed by one single commodity. In some places livestock was the universal equivalent, in others—salt or furs, etc.

The further growth of commodity production and the expansion of exchange required a transition to a single equivalent since many different commodities fulfilling the role of the universal equivalent impeded the development of exchange and conflicted with the demand on the growing market. This contradiction was resolved by the precious metals—silver and gold—gradually coming to fulfil the role of the universal equivalent on a constant basis.

### The money form of value

When the role of the universal equivalent became attached to a single commodity, such as gold, the money form of value arose. This can be expressed as follows:

$$\left. \begin{array}{l} 40 \text{ kg of grain} \\ 20 \text{ m of cloth} \\ 2 \text{ axes} \\ 1 \text{ sheep} \\ x \text{ of commodity } A, \text{ etc.} \end{array} \right\} = 3 \text{ gr of gold}$$

The transition to the money form of value took place after the second major social division of labour—the separation of handicrafts from agriculture. Because they have specific qualities (homogeneity, divisibility, small volume,

etc.), it was gold and silver that became the universal equivalent and turned into money. Money is a specific commodity that fulfils the social function of expressing the value of all other commodities. When money appeared, all commodities began to measure their value in money terms.

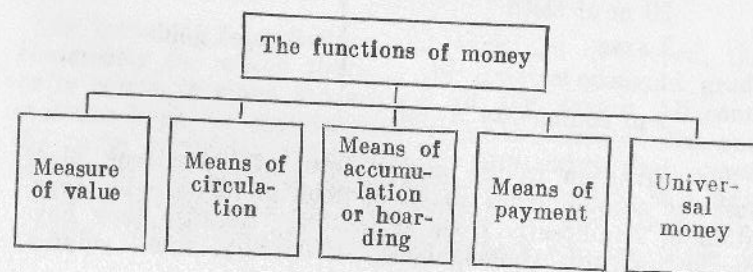
## 4. MONEY

### The essence of money and its functions

Money emerged spontaneously in the course of the historical development of commodity production and exchange. It was the development of the forms of value from the most elementary ones that led to the appearance of the money form of value and money itself.

Gold and silver, metal coins or bank notes are used as money. These types of money did not appear all of once, however; they were the result of protracted development. Initially, it was the commodity most often exchanged that was singled out as money. Individual peoples used different things at different times as money: pelts, livestock, leather, grain, salt, etc. As exchange developed, the role of money was transferred from one commodity to another. Over a long period of development of the commodity economy, it was gold that firmly assumed the role of money. In the 19th century gold was used as money in the vast majority of countries.

As the commodity economy developed, money began to fulfil several functions: a measure of the value of a commodity, a means of circulation, a means of accumulation or hoarding, a means of payment and universal money.



Let us look closer at each of these functions.

Money's chief function is a *measure of value*. The essence of this function consists in money being used to measure the value of all commodities. In order that it might fulfil its role as a measure of value, money must have value itself. Just as the weight of a body can be measured by using an iron weight only because the latter has a weight of its own, the value of a commodity can only be measured using another commodity that itself has a value.

The value of a commodity is measured through the medium of gold. When setting a specific price for a good, the owner is mentally or, as Marx put it, "ideally", expressing the value of the commodity in terms of gold. A commodity can be equated to a certain quantity of gold because, in reality, there always exists a certain correlation between the value of gold and the value of the given commodity. This correlation is based on socially necessary labour expended on producing the commodity and gold.

The value of a commodity expressed in money is called its *price*.

Commodities express their value in terms of a specific quantity of gold or silver. This amount of monetary material must be measurable. A definite weight of it is taken as a unit measure of money. The monetary unit in the USA, for example, is the dollar, in Britain it is the pound sterling, in France—the franc. To facilitate measurement, monetary units are divided into smaller parts: the dollar into 100 cents, the franc into 100 centimes, the pound sterling into 100 pences.

The monetary unit with its divisions serves as the standard of price.

Money's second function is as a *means of circulation*. Until money appeared, there was elementary exchange of commodities, i.e., a commodity was exchanged directly for another one. When money appeared, it was used to facilitate this exchange. First, the commodity is sold for money, and then another one is bought with this money. The exchange of commodities carried out with the help of money is called commodity circulation (commodity—money—commodity). It must, however, be noted that once the commodity has become the property of the purchaser, it leaves circulation while money is constantly in the sphere of circulation, i.e., it goes from hand to hand. Thus, money is an intermediary in the circulation of commodities



and fulfils the function of a means of circulation. In order to fulfil this function, the money must be at hand.

Initially, in the exchange of commodities, money was used in the form of bars of gold and silver, but this was inconvenient for many reasons. They had to be weighed every time, broken down into small pieces, and tested for purity. Gradually, therefore, gold and silver bars were replaced by coins minted by the state. A coin is a piece of monetary metal of standard shape, with a state stamp that confirms its weight and purity.

During circulation, coins become worn and lose part of their value, but, in practice, worn coins are accepted as full-value money. This is because, in fulfilling its function as a means of circulation, money does not stay long in the hands of either seller or purchaser. The producer is interested in the nominal value of the money he receives, and does not care whether he is paid with old or new coins: it makes no difference, as he will immediately spend them, anyway, in order to purchase the commodities he requires. As a result, the function of a means of circulation can be fulfilled by coins of less than full value and even by paper money.

As the commodity economy developed, money began to fulfil the function of a *means of accumulation* or a *means of hoarding*. Money is a universal embodiment of wealth. It can be used to acquire any commodity. Producers accumulate money and save it in order to buy the commodities they need. This function can be fulfilled only by full-value money—gold and silver coins or things made of gold and silver.

Money fulfils the function of a *means of payment*. Commodities are not always sold for cash. Sometimes they are bought or sold on credit, or on deferred payment terms. During purchase on credit, the transfer of the goods from the seller to the purchaser takes place without payment and the money must be handed over within a certain period of time. Here money is fulfilling the function of a means of payment.

For example, a smith makes a plough in the spring. The peasant needs this plough but has no cash to buy it with until the autumn when he has sold his harvest. In this situation, the peasant can only receive the plough from the smith on credit, i.e., payment will be put off until the autumn. Money acts as a means of payment also in the payment of taxes, land rent, and so on.

The functions of money as a means of circulation and a means of payment make it possible to clarify the law according to which the mass (quantity) of money necessary for the circulation of commodities is determined.

The amount of money necessary for circulation depends on: (1) the sum of the prices of the commodities in circulation; (2) the speed with which money circulates. The faster money circulates, the less of it is required for circulation, and vice versa. If, for example, commodities worth 100 billion dollars are sold during the year, while, on average, each dollar makes 50 turnovers, the following formula will determine the amount of money required for the circulation of the total mass of commodities:

$$\begin{aligned} \text{Amount of money} &= \frac{\text{sum total of commodity prices}}{\text{velocity of money circulation}} = \\ &= \frac{100 \text{ billion dollars}}{50} = 2 \text{ billion dollars} \end{aligned}$$

Thanks to credit, the requirement for money is reduced by the sum of the prices of the commodities sold on credit and the sum of mutually cancelling payments (clearings). Thus, the full formula of money circulation acquires the following form:

$$M = \frac{P - C + PD - CI}{MT}$$

The law of money circulation is that the amount of money required for commodity circulation must equal the sum total of the prices of commodities to be sold (P), minus the sum total of the prices in credit sales (C), plus the total payments due (PD), minus the total of mutually cancelling payments (clearings) (CI), all divided by the average number of money turnovers (MT).

This law is of significance for all social formations under which commodity production and circulation exist.

Money also fulfils the function of *universal money*. On the world market, as Marx put it, money strips off its local garb and acts not in the form of coins, but in its original form—that of bullion. In the trade turnover between countries on the world market, gold is the universal means of purchase and payment and the absolute materialisation of social wealth.

Such are the functions of money, all of which are integrally interlinked and express, in different forms, the essence of money as the universal equivalent.

In social formations based on exploitation (slavery, feudalism, capitalism), money has a class nature; it is a means of exploitation.

## Gold and paper money. Inflation

Paper money consists of money tokens, issued by the government, to replace and represent gold in its function as a means of circulation and a means of payment. Paper money in fact has no value of its own, so it cannot fulfil the function of a measure of the value of commodities.

Paper money was first issued in America in 1690. In Russia it appeared in 1769.

However many paper tokens are issued, they represent only the value of the quantity of gold necessary to cover commodity turnover. If the amount of paper money issued corresponds to the amount of gold necessary to keep up commodity circulation, the purchasing power of paper money coincides with that of gold money. Usually the bourgeois state resorts to additional issues of paper money, since its incomes are usually below its outlays. This is particularly characteristic during wars, crises and other disruptions. As a result, the paper money depreciates.

Let us take an example, assuming that five billion gold coins, each worth a dollar, are required for commodity circulation. The state issues this number of paper dollars. This means that each paper dollar represents one gold coin. Let us assume that commodity circulation remains unchanged, but the state issues a further five billion paper dollars. One gold coin is now represented by two paper dollars, with which it is possible to buy only the same number of commodities as could previously be acquired for one dollar. Thus, the paper money has depreciated and its purchasing power has fallen.

This process is called *inflation*. Inflation entails a rise in commodity prices, but the wages and incomes of the working people in the capitalist countries grow during periods of inflation, if they grow at all, more slowly than do prices. This is why the working masses suffer most from inflation.

At a particular stage, inflation leads to serious disruptions in the economy. There are various means for restoring normal money circulation. One of the methods of

monetary reform is for the depreciated money to be replaced by a smaller quantity of new money.

The content and methods for implementing monetary reforms are determined by the bourgeois state in the interests of the ruling class. As a consequence of monetary reforms carried out by the bourgeoisie, the standard of living of the masses falls.

In addition to monetary reforms, the capitalist countries devalue their currencies. *Devaluation* is a drop, fixed legislatively, in the gold content of the national monetary unit and, correspondingly, a drop in its official exchange rate in relation to the currencies of other countries. By resorting to devaluations, the bourgeois governments try to eliminate economic disturbances at the expense of the working people. Mass devaluations of the capitalist countries' currencies took place in 1949 and in 1967, but in relation to the US dollar not to gold. By the early 1970s, the unprecedented scale of militarisation of the economy, and the deterioration of the USA's position on the capitalist world market led to the US government officially abolishing the exchange of paper dollars for gold and reducing the gold content of the dollar, especially in 1971 and 1972. The devaluation of the US dollar, the main reserve currency of the capitalist world, is one of the clearest manifestations of the monetary and financial crisis of imperialism.

## Credit money

Apart from paper money, in the capitalist countries there also exists *credit money*, which arises from money's function as a means of payment. The simplest form of credit money is the *bill of exchange*, or promissory note, which is debtor's document of standard form, expressing an obligation to pay a certain sum of money by a certain date. By passing from hand to hand during the sale and purchase of commodities, the promissory note or bill of exchange fulfils the role of money.

Initially, the role of credit money was fulfilled by the private commercial bill, i.e., one given by the purchaser of the commodity. But the promissory notes of individuals had a very narrow circulation, as they were only accepted by people acquainted with the signatory. Later, the bills of individuals began increasingly to be accepted and dis-



counted by banks. In their place, however, the banks began to give their own promissory notes, which came to be called bank notes. *Bank notes* are the promissory notes of the banker, and on presenting them at any time, the bearer can receive their value in cash from the bank.

Bank notes could be exchanged for gold or other coin money. Under these conditions they circulated on a par with gold, and did not depreciate. As capitalism develops, there is a relative fall in the amount of gold in circulation and it begins to be accumulated increasingly in the form of gold reserves in the central emission banks. In circulation gold begins to be replaced by bank notes and then by paper money. Initially, bank notes were usually exchangeable for gold but later on inconvertible ones were issued. This made bank notes increasingly similar to paper money.

### Monetary systems

For a comprehensive description of money, we must consider the various monetary systems that exist in the capitalist countries.

*Monetary systems* are the forms in which a country's money circulation is organised. There have been both metallic and paper monetary systems. If only one metal (gold or silver) acted as money, the system was called *monometallic*, but if both these metals were accepted as money, it was a *bimetallic* system.

At different stages in the development of capitalism (16th and 17th centuries), the monetary systems of many countries were bimetallic. By the end of the 19th century, however, almost all the capitalist countries had gone over to a monometallic gold-based system of money circulation.

The main features of a monometallic system are: free minting of gold coins, exchange of other money tokens for gold coins and gold flows between countries. The free minting of gold coins means that private individuals may exchange their gold for coins at the mint. At the same time, the owners of coins may turn them into gold bullion. Under such a system, the quantity of money in circulation corresponds spontaneously to the requirements of commodity circulation.

Under gold monometallism, small change coins made of copper, nickel, and so on are issued for the purposes of small-scale turnover.

From the beginning of the First World War (1914-1918), the capitalist countries went over to a paper money system of circulation. Gold is now no longer in circulation anywhere. This is due to the general crisis of capitalism, the militarisation of the economy and the bourgeois states' use of money issues to rob the working people.

## 5. THE LAW OF VALUE—AN ECONOMIC LAW OF COMMODITY PRODUCTION

### Competition and anarchy in production

When private ownership predominates, the production of commodities takes place spontaneously. There is no (nor can there be) any institution to instruct the producer which commodity to manufacture and in what quantity. Individual entrepreneurs and farmers do not co-ordinate their production with other entrepreneurs or consumers. Anarchy prevails, i.e., production is unplanned and disorganised.

The anarchy of production is intensified by competition, the fierce struggle between private producers for more profitable conditions of production and marketing and for higher profits. *Competition and anarchy of production* are a law of commodity production based on private property. Each producer, be he a peasant, craftsman or capitalist (the capitalist does not, of course, produce the commodities himself, but on the market he acts as the producer) strives for the highest possible income from the sale of his commodity. He cannot, however, predict exactly what the demand for it will be. He only knows which commodities were in great demand recently, and strives to produce as many of them as possible. But the other producers act in the same way, with the result that each of them operates at his own risk. It often turns out that far more of a commodity is produced than is required by society.

How, then, is production regulated in a society in which private ownership of the means of production predominates? It is regulated by the law of value.

## The law of value

*The law of value is the economic law of commodity production in accordance with which commodities are produced and exchanged in correspondence with the quantity of socially necessary labour expended on making them.* In other words, the law of value means that commodities are exchanged at value, i.e., exchanged commodities contain equal quantities of socially necessary labour and are equivalents. Consequently, the price paid for a commodity (let us recall that price is the monetary expression of value) must correspond to its value. In reality, however, under the impact of supply and demand, the prices of commodities exceed or fall short of their values. The smaller the supply of a commodity on the market, the more the demand for it exceeds this supply, the higher its price will be, and vice versa. Does this mean that the law of value does not operate? Not at all. The operation of any law can only be understood by studying a tremendous number of facts. If the prices of some commodity are analysed for a protracted period, it turns out that the divergences above and below value cancel each other out and, on average, price does correspond to value.

In spite of the disorderly and anarchic nature of production in a commodity society based on private ownership of the means of production, an equilibrium and proportionality are from time to time established between individual branches of the economy. The commodity economy owes this to the law of value, which regulates production and operates through market competition. Engels points out that "since the competition within a society of exchanging producers sets in operation the law of value inherent in commodity production, it thereby brings about the only organisation and order of social production possible under the circumstances. Only through under- or over-valuation of products will the individual commodity producers be shown directly what and how much of this society needs or does not need".<sup>1</sup>

The operation of the law of value in commodity production based on private ownership of the means of production is manifested as follows:

<sup>1</sup> F. Engels, *Vorwort zu Marx' Schrift, "Das Elend der Philosophie"*, Marx & Engels, *Werke*, Vol. 21, Dietz Verlag, Berlin, 1962, p. 185.

1) *The law of value spontaneously regulates the distribution of the means of production and labour power between the various branches of production.*

The social division of labour requires a certain proportionality between branches, otherwise normal production cannot exist. Price fluctuations and, consequently, the higher or lower profitability of production give rise to either an inflow of the means of production and labour into a particular branch, or an outflow from it.

Here is a clear and pointed section from M. Ilyin's book "The Tale of the Great Plan". The author has managed to provide a very descriptive example of how the law of value regulates commodity production based on private property, especially capitalist production.

"Mr. Fox comes into some money—a million dollars. But money must be made to work. Mr. Fox looks through the newspapers, asks his friends' advice and hires agents. From morning till night, the agents race about the city looking and asking. What should Mr. Fox invest his money in?

"At last they find something! Hats! That's what he must make. Hats sell well and people are making money out of them.

"There's no point in thinking any more about it. Mr. Fox builds a hat factory. Mr. Pox, Mr. Crox and Mr. Knox get the same idea at the same time. And they all begin to build hat factories.

"Six months later there are several new hat factories in the country. The shops are crammed full of hatboxes. The warehouses are bursting at the seams. There are announcements, billboards and adverts everywhere: hats, hats, hats. But the factories continue to produce at full steam. And then something happens that Mr. Fox, Mr. Knox and Mr. Crox did not foresee. People stopped buying hats. Mr. Knox drops the price of his hats by 20 cents, Mr. Crox by 40 cents and Mr. Fox sells his at a loss, just to get rid of them.

"But things get worse and worse...

"... And suddenly—stop! Mr. Fox closes his factory. Two thousand workers are all laid off and thrown on to the streets. The next day Mr. Knox closes his. A week later virtually all hat factories are at a standstill. Thousands are out of work. New machinery is rusting away. The premises are sold for demolition.



"A year or two passes. The hats bought from Mr. Knox, Fox and Crox have worn out. People begin buying hats again. The hat shops are empty. Dusty boxes are brought down from the top shelves. There just aren't enough hats. Hat prices go up. And then not Mr. Fox, but a Mr. Duddle sets up in a profitable business—he builds a hat factory. But the same idea occurs to other clever businessmen—Mr. Buddle, Mr. Fuddle and Mr. Nuddle. And the whole thing starts again."

2) *The law of value encourages commodity producers to develop their productive forces.* The magnitude of the value of a commodity is, as we have already seen, determined by socially necessary labour. Those commodity producers who employ more sophisticated technology and organise production better, etc., produce their output for fewer inputs than are socially necessary. Meanwhile, these commodities are sold at prices corresponding to the socially necessary labour. As a result, these producers receive extra money and become rich. This encourages the other producers to make technological improvements in their enterprises, too. This is how technology is improved and society's productive forces develop.

3) *Under certain conditions, the operation of the law of value leads to the emergence and development of capitalist relations.* The random fluctuations of market prices around value intensify the economic inequality and struggle between producers. Competition ruins some producers and enriches others. The operation of the law of value leads to a stratification of commodity producers into bourgeoisie and the proletariat, to a concentration of an increasing part of social production in the hands of some capitalists and to the ruin of others.

## The fetishism of commodities

We have already explained that the labour of each individual commodity producer, being essentially social labour, has the form of private labour. The social character of labour, the social links between producers and their mutual dependence are revealed and manifested only on the market during the exchange of commodities. It is as if not people, but commodities, were entering into relations with one another here. In this situation, the commodities bear and

express the social relations between people. A thing made by a producer, once it comes on to the market and enters into relations with other commodities, ceases, as it were, to obey its master, begins to live a sort of independent life, and a capricious one at that. Today a pair of shoes may bring in, say, 20 dollars; tomorrow—only 15 dollars. The day after, it turns out that no one will give anything for shoes. But sometime later, people will do anything to get hold of a pair of shoes and will give anything asked for them.

This independent life of the commodity on the market, so full of chance, also compels people to assign special qualities to it that are, in fact, not inherent in it at all. People see only relations between commodities where, in fact, there exist social relations of production. The relations between people are hidden behind those between things.

This transmutation of relations of production, which is inherent in the commodity economy based on private ownership of the means of production, Marx calls *fetishism of commodities*.<sup>1</sup>

As commodity production develops, the fetishism of commodities expands and becomes stronger. When money appears on the scene, it acquires its final form—that of money fetishism. People see it as a natural quality of money, gold that it can purchase anything. In fact, however, this quality of gold is a result of particular social relations, relations of commodity production.

The secret of commodity fetishism was first discovered by Marx. With the abolition of private ownership of the means of production, commodity fetishism will disappear, too.

## REVISION EXERCISES

1. What are the conditions that give rise to commodity production?
2. Describe simple commodity production and capitalist commodity production.

<sup>1</sup> The word "fetishism" means a religious worship by people of things they themselves have created—fetishes. A "fetish" is a thing that superstitious people believe to have supernatural, magical powers.

3. What are the use value and value of a commodity?
4. What are concrete and abstract labour?
5. Describe the main contradiction of simple commodity production.
6. What determines the magnitude of the value of a commodity?
7. In what do the essence and functions of money consist?
8. What are paper and credit money?
9. What is the essence of inflation?
10. What are competition and anarchy of production?
11. Describe the law of value. How does it operate under commodity production based on private ownership of the means of production?
12. What is the essence of the fetishism of commodities?

### Chapter III

## CAPITAL AND SURPLUS VALUE. WAGES UNDER CAPITALISM

At a certain stage in the development of society, commodity production is responsible for the emergence of capitalism. What is capitalism? Lenin gives a clear and simple definition. "Capitalism is the name given to that social system under which the land, factories, implements, etc., belong to a small number of landed proprietors and capitalists, while the mass of the people possesses no property, or very little property, and is compelled to hire itself out as workers."<sup>1</sup>

Under capitalism, the working people enjoy personal freedom, but they are, at the same time, deprived of the means of production and, consequently, means of subsistence, so they are compelled to work in capitalist enterprises.

How did it happen that the means of production fell into the hands of a small group of people?

### 1. PRIMITIVE ACCUMULATION OF CAPITAL

The conditions for the emergence of capitalism

Bourgeois ideologists deliberately distort the history of how the capitalist and working classes emerged. In an

<sup>1</sup> V. I. Lenin, "On Strikes", *Collected Works*, Vol. 4, Progress Publishers, Moscow, 1977, p. 314.



attempt to justify in every possible way the unjust distribution of material wealth, they invent explanations for the division of society into rich and poor. Since time immemorial, they say, people have always been different in character. Some are hard-working and thrifty; others are lazy. The first group gradually accumulates all sorts of wealth, while the second remains poor. In fact, this is a totally false explanation of the origins of capitalism.

Two major conditions are required for capitalism to emerge: *people enjoying personal freedom but having no means of production or means of subsistence, and therefore having to sell their labour power, and a concentration of the means of production and large sums of money in the hands of certain individuals.*

These two conditions were fulfilled under the feudal system during the stratification of small commodity producers. The establishment of the capitalist mode of production was accelerated by the most flagrant coercion on the part of landowners, the emerging bourgeoisie and the state authorities against the broad population.

The divorce of the producer  
from the means of production.  
Accumulation of wealth  
in the hands of a few

*The primitive accumulation of capital* is the process by which the conditions necessary for the emergence of capitalism are created. "The so-called primitive accumulation, therefore," wrote Marx, "is nothing else than the historical process of divorcing the producer from the means of production."<sup>1</sup> This process constitutes the history leading up to capital. Primitive accumulation took place in its most typical form in England, where the landlords seized the peasants' communal land and even drove the peasants out of their homes. The land appropriated from the peasants by the landowners was turned into sheep pasture or rented out to tenant farmers. There was great demand for wool on the part of the growing textile industry.

The emerging bourgeoisie also used such methods as the appropriation of crown lands and the plunder of church

<sup>1</sup> K. Marx, *Capital*, Vol. I, p. 668.

property. Masses of people, deprived of their means of subsistence, became vagrants, beggars and villains. The government passed harsh laws against the people, who had been robbed and were trying to stand up for themselves. In England these were called "bloody legislation". The robbed people were forced by torture, lashings, and branding into capitalist enterprises.

The fact that the peasants were deprived of their land had a twofold result: first, the land became the private property of a comparatively small number of people; second, an abundant supply of wage labour was ensured for industry. Thus, the first conditions necessary for the emergence of capitalism was created—the existence of a mass of propertyless people, personally free but, at the same time, deprived of the means of production.

Marx notes the following chief means of forming the monetary wealth necessary for setting up large-scale capitalist enterprises: (1) the colonial system—plunder and enslavement of the peoples of America, Asia and Africa; (2) the tax system—tax farming, monopoly and other ways of appropriating part of the tax levied on the population; (3) the system of protectionism—state's encouragement of the development of capitalist industry; (4) inhuman exploitation.

As a result of primitive accumulation, labour power deprived of means of production was created in massive quantities and huge monetary wealth accumulated in the hands of only a few people.

## 2. THE TRANSFORMATION OF MONEY INTO CAPITAL

The general formula for capital

Money is not, in itself, capital. As we have already seen, it existed long before the emergence of capitalism. Money only becomes capital at a specific stage in the development of commodity production. Before capitalism, under simple commodity production, commodity circulation can be expressed by the formula:  $C-M-C$  (commodity—money—commodity). In this, money functions not as capital, but as a medium in the circulation of commodities. One commodity is sold for the purpose of purchasing another. The movement

of capital is expressed by another formula:  $M-C-M$  (money—commodity—money), i.e., purchase for the purpose of selling.

The formula  $C-M-C$  characteristic of simple commodity production shows that one commodity is exchanged for another through the medium of money. Money serves as an intermediary in exchange, and is not capital. The goal of commodity exchange is clear. A cobbler, for instance, sells his boots in order to buy bread. One use value is exchanged for another through the medium of money.

The formula  $M-C-M$  is completely different. In this case, money is the point of departure of the entire process and is used as a means for purchasing something which is to be sold, i.e., it functions as capital. The capitalist uses his own money to purchase particular commodities in order to turn them into money once more. The starting and finishing points here coincide: at first the capitalist had money and, in the end, he has money, too.

There would be no point at all, however, in all the movement of capital if, in the end, the capitalist received the same amount of money as he had originally. Capital exists in order that, at the end of its movement, there might be more money than at the beginning. The final goal of all the capitalist's activities is the *receipt of profits*. Thus, under capitalism, the movement of money is expressed by Marx using the following formula, which he called the general formula for capital:  $M-C-M'$ , where  $M'$  equals the sum of money originally advanced plus a certain increment. This increment, or surplus over the original sum, Marx called *surplus value*, for which he used the letter "m" in his formula.

The formula for simple commodity circulation:  $C-M-C$ .

The general formula for capital:  $M-C-M' (M+m)$   $C$ —commodity,  $M$ —money,  $M' (M+m)$ —money plus increment.

Money is used by capitalists not as medium for the exchange of commodities, but as an instrument for making profits and getting rich. Under capitalism, this movement of money as capital is an endless one, during which it acquires the ability for self-expansion. Self-expanding value, or *value that yields surplus value is called capital*.

How does capital grow? Does this, perhaps, happen in the sphere of circulation, during sale and purchase? No, because during acts of sale and purchase (i.e., in the sphere of circulation) there is an exchange of equivalents, ex-

change of equal values. If everyone manages to sell his commodities above value by, say, 10 per cent, when he becomes a purchaser, he will pay those selling to him the same extra 10 per cent. Thus, that which the producers gain as sellers, they lose as purchasers. In fact, however, the entire capitalist class obtains an increment on capital.

How does the capitalist derive surplus value if he purchases and sells all commodities at value?

The general formula for capital includes two elements—money and the commodity. Consequently, the increment in value can only appear as a result of changes in either the money or the commodity. Money, as we have seen, cannot change its value and engender an increment on its own. This means that the source of the growth of value must be sought in the commodity.

In order for money to be transformed into capital, the capitalist must find on the market a commodity that creates more value when it is consumed than it possesses in itself. This commodity is labour power.

### Labour power as a commodity, its value and use value

*Labour power* is the totality of physical and mental abilities possessed by man, which he uses in producing material wealth. In any society, labour power is an essential element of production, but only under capitalism does it become a commodity.

Labour power cannot be a commodity in slave society, for the slave belongs to his master. He is not his own master, so he cannot sell his labour power. The small peasant or artisan owning the means of production does not sell his labour power either. He uses it himself.

It is a different matter once the peasant has been driven from the land or the artisan ruined, i.e., when the working people are deprived of the means of production and means of subsistence. In these circumstances, the only thing he can offer on the market is his own labour power.

Like any other commodity, under capitalism labour power must have and, indeed, does have, its own value and use value. The value of labour power, like that of any other commodity, is determined by the labour time socially necessary for its reproduction. Labour power is man's ability to work. It exists only while its owner is alive, and to



remain alive the working man needs a certain quantity of means of subsistence. Consequently, the value of labour power is determined by the value of the commodities necessary to keep the worker himself alive.

The quantity and quality of the necessary means of subsistence of the worker in each country depend on a number of factors: the level of economic development, the conditions under which the working class took shape, how long since it began to wage a struggle for its interests and how successful it has been in this.

The modern worker has socio-cultural requirements that arose under specific historical conditions. They include, for example, the possibility of reading newspapers and books, of watching T.V., going to the cinema, participating in the class struggle, and so on. But these socio-cultural requirements differ from country to country and period to period. In the developed capitalist countries they are greater than in the economically backward ones. The value of labour power also includes, therefore, the value of the things necessary for satisfying the socio-cultural requirements of the working class as they have taken shape historically in the given country and at the given time. As Marx pointed out, "In contradistinction therefore to the case of other commodities, there enters into the determination of the value of labour-power a historical and moral element."<sup>1</sup>

It is the workers' families that provide the increase in labour power, so the value of labour power must include, too, the value of the means of subsistence for the members of the worker's family.

Finally, a person takes some time to acquire a particular trade. Expenditure on training the worker is necessary in order to create skilled labour power. These outlays on training are also included in the value of the labour power. Thus, the *value of labour power* is determined by the value of the means of subsistence necessary to satisfy the physical and socio-cultural requirements considered normal in the given country for the worker himself and his family, and by expenditure on training him. *The value of labour power expressed in money terms is the price of labour power.* Under capitalism it takes the form of *wages*.

Labour power as a commodity also has use value, which consists in the worker's ability to create more value during

<sup>1</sup> K. Marx, *Capital*, Vol. I, p. 168.

the labour process, than that of his own labour power. It is this feature of labour power, its ability to create *surplus value*, that interests the capitalist.

Now let us look at how, in the process of the consumption of labour power, surplus value is created and the capitalist becomes richer.

### 3. THE PRODUCTION OF SURPLUS VALUE. CAPITALIST EXPLOITATION

#### Specifics of the labour process under capitalism

Labour power is consumed during the labour process, which always takes place in a particular social form. The social form of the labour process consists of the relations of production, which are based on the form of ownership of the means of production. The specifics of the labour process in any society depend on who owns the means of production. Under capitalism, it is the capitalist, the worker being deprived of them. The labour process under capitalism is, therefore, characterised by the following specifics:

First, the worker works under the supervision of the capitalist for whom the labour process takes place. The capitalist decides what exactly should be produced, in what quantities and how.

Second, the product created during the labour process belongs not to the worker who manufactured it, but to the capitalist.

These features of the labour process under capitalism transform the worker's labour into forced labour, into a heavy burden.

#### The labour process and the expansion of value. Capitalist exploitation

Capitalist production constitutes a unified process of creating use value and of the expansion of value.

In a commodity economy, use value cannot be created unless value is created at the same time. The worker who

produces the commodity spends his labour, which is dual in character. On the one hand, it is concrete labour and it creates use value. On the other hand, it is abstract labour creating the value of the commodity. For the capitalist, the production of use values is merely a means for attaining his goal. *The goal and motive force behind capitalist production is the creation of surplus value.*

Let us consider how this surplus value is created.

The capitalist buys on the market everything he needs for production: machinery, machine-tools, raw materials, fuel and labour power. Production begins in the factory: machine-tools and machines operate, workers work, fuel is burned, and raw material is turned into a finished commodity. When the commodity is ready, the capitalist sells it on the market and, with the money he receives, buys more raw materials, machinery, labour power, and so on, i.e., the entire circuit begins again. Schematically this can be illustrated as follows:

$$M - C \begin{matrix} \nearrow Lp \\ \searrow Mp \end{matrix} \dots P \dots C' - M',$$

i.e., money—commodity (labour power and means of production)—production—commodity—money.

What is the value of the commodity produced?

Let us assume that the capitalist owns a garment factory. To make suits he buys sewing machines, wool, lining material, butting, thread, etc., and labour power. To produce 500 suits, the capitalist buys 1,500 m of wool at 30 dollars a metre, to a total of 45,000 dollars. The other materials cost 30 dollars per suit, to a sum of 15,000 dollars. In manufacturing the suits, wear and tear on the sewing machines and other overheads (lighting, heating, etc.) total 5,000 dollars. Outlays on hiring labour force come to 2,500 dollars (500 workers at 5 dollars a day each).

Thus, the capitalist has bought everything necessary for production.

His expenditures on the manufacture of 500 suits are:

wool	45,000 dollars
other materials	15,000 »
wear and tear on machinery, etc.	5,000 »
labour power	2,500 »
<b>Total:</b>	<b>67,500 dollars</b>

The value of one suit (67,500:500) is 135 dollars. On the market the capitalist observes that such suits sell at 135 dollars each, so he has to sell his suits at this price, too. Thus, the capitalist advanced 67,500 dollars for production and received the same 67,500 dollars back from the sale of the output produced (135×500). No surplus value was created. The money was not transformed into capital.

How, then, does surplus value arise?

The fact is that the value of labour power is reproduced not in the course of the entire working day, but of only part of it, say four hours. But the capitalist makes the worker work more than four hours a day. He has paid the daily value of labour power and now owns the use value of this commodity throughout the working day. As a result, the capitalist compels the worker to work eight or more hours a day, and the lengthened labour process allows the worker to create more value than that of his own labour power.

Let us assume that the capitalist makes the worker work not four, but eight hours a day. In eight hours of labour the workforce (in our example, 500 people) will use twice as much of the means of production, cause double the wear and tear and create double the output, i.e., 1,000 suits.

Now let us see what the capitalist's outlays are:

wool	90,000 dollars
other materials	30,000 »
wear and tear on machinery	10,000 »
labour power	2,500 »
<b>Total:</b>	<b>132,500 dollars</b>

Over the eight-hour day the workers have produced 1,000 suits, which sell on the market at 135 dollars each, bringing the capitalist 135,000 dollars. He advanced 132,500 dollars, but received 135,000. The initial value advanced has been increased by 2,500 dollars. These 2,500 dollars are the surplus value and the money has been transformed into capital.

The receipt of surplus value depends on the workers working longer than necessary to reproduce the value of their labour power and creating value in excess of that of their labour power, i.e., surplus value. Surplus value is, consequently, the result of the working class's exploitation by capitalists.

Exploitation of man by man was not engendered by



capitalism; it existed earlier. In slave and feudal societies, the labour of slaves and serfs was overtly forced labour, and exploitation of them was in no way concealed or disguised.

Under capitalism, however, the worker is not personally dependent. He does not actually belong to a capitalist, so the capitalist cannot make him work by force. The worker does not, though, have any means of production or means of subsistence of his own, so he is compelled to sell his labour power. Thus, the system of wage labour is a system of wage slavery. The coercion here is economic.

Under capitalism, the forced nature of labour is concealed. Having revealed the secret of capitalist exploitation, Marx discovered the basic economic law of the capitalist mode of production. "Production of surplus-value is the absolute law of this mode of production."<sup>1</sup>

The law of surplus value allows us to understand and explain all the processes and phenomena taking place in bourgeois society. It expresses the exploitative essence of this mode of production. Its operation is conditioned by an intensification of competition and anarchy of production under capitalism, increasing poverty of the working masses, growing unemployment, a deepening and exacerbation of all the contradictions of capitalism.

### Necessary and surplus labour time

The working day in a capitalist enterprise divides into two parts: necessary labour time and surplus labour time. Correspondingly, the worker's labour divides into necessary and surplus labour.

*Necessary labour time and necessary labour* are the labour time and the labour the worker requires to reproduce the value of his labour power, i.e., the value of the means of subsistence he needs. The capitalist pays wages for the necessary labour time.

*Surplus time and surplus labour* are the time and the labour expended on the production of the surplus product. The *surplus product* under capitalism acquires the form of surplus value, which is appropriated by the capitalists. The ratio of the surplus labour or surplus labour time to the

<sup>1</sup> K. Marx, *Capital*, Vol. I, p. 580.

necessary labour or necessary labour time shows the degree of exploitation of the worker. Consequently, surplus time and surplus labour express a specific social relation characterising exploitation of the working class by the owners of the means of production—the capitalists.

Capitalist ownership of the means of production and exploitation of wage labour divide bourgeois society into hostile classes.

### The class structure of bourgeois society

Marx and Engels proved that the division of society into classes is linked with the appearance of private ownership of the means of production, i.e., of the land, minerals, and instruments of labour, in a word, everything people need to produce material wealth. One part of society, the minority, concentrates the means of production in its hands and is therefore able to exploit the other part of society, which is deprived of the means of production.

Lenin said that, in an exploitative society, the term "class" applies to groups of people, one of which can appropriate the labour of another owing to the different places they occupy in a definite system of social economy.<sup>1</sup>

The first ever division of human society into classes was that between slaves and slave-owners. With the transition from the slave to the feudal system, it was replaced by a division of society into serfs and feudal lords.

Bourgeois society is characterised by the existence of two major opposing classes—the bourgeoisie and the proletariat. The bourgeoisie is the class that owns the means of production and uses them to exploit the workers in order to derive surplus value. The proletariat is the class of wage workers, deprived of means of production and consequently subject to capitalist exploitation. Under capitalism there also exist the classes of landowners and peasants, surviving from the feudal system.

The bourgeoisie and the proletariat are antagonistic classes, i.e., they have opposing and irreconcilably hostile interests. As capitalism develops, the proletariat grows in numbers, becomes increasingly conscious of its class inter-

<sup>1</sup> See V. I. Lenin, "A Great Beginning", *Collected Works*, Vol. 29, Progress Publishers, Moscow, 1977, p. 421.

ests, develops and organises itself for a struggle against the bourgeoisie. The class struggle waged by the proletariat against the bourgeoisie constitutes the chief feature of bourgeois society. The proletariat is the most revolutionary class of capitalist society; it is the gravedigger of capitalism.

The socio-economic and political inequality under capitalism is deliberately maintained by the bourgeois state, which protects capitalist private ownership of the means of production, facilitates exploitation of the working people and suppresses their struggle against the capitalist system.

Bourgeois sociologists and legal experts picture the bourgeois state as being above classes and standing above society in general. In reality, however, the bourgeois state is a political organisation of the economically dominant class, a dictatorship of the bourgeoisie.

The bourgeois state's main task, like that of any exploitative state, consists in keeping the exploited majority subordinated and obedient to the ruling class. The bourgeois state takes different forms (monarchy or republic) and regimes (democratic, fascist or despotic), but its essence is one and the same—all forms of bourgeois state are dictatorships of the bourgeoisie. The capitalist state's aim is to maintain and consolidate the exploitation of wage labour by capital.

## 4. CAPITAL AND ITS COMPONENT PARTS

### Capital as a social relation of production

Bourgeois economists apply the term "capital" to all instruments of labour, from primitive man's sticks and stones. One bourgeois author said that "in the first stone which he (the savage) flings at the wild animal he pursues, in the first stick that he seizes to strike down the fruit which hangs above his reach, we see the appropriation of one article for the purpose of aiding in the acquisition of another, and thus discover the origin of capital".<sup>1</sup> The purpose of this explanation is to conceal the exploitation of the working class under capitalism and to present capital

<sup>1</sup> Quoted from: K. Marx, *Capital*, Vol. I, p. 179.

in the form of an eternal condition for the existence of society.

In fact, however, means of production are not, in themselves, capital: they are a necessary condition for the existence of any society and, in this sense, classes make no difference to them. Means of production only become capital when they are the private property of capitalists and are used for exploitation of the working class. Capital is not a sum of money or means of production, but a historically determined socio-production relation under which the instruments and means of production, as well as the chief means of subsistence, are the property of the capitalist class; the working class is the chief productive force of society, but is deprived of means of production and means of subsistence, so it has to sell its labour power to the capitalists and suffer exploitation. In other words, *capital is the value that, through the exploitation of wage workers, begets surplus value.*

Of major significance for clarifying the essence of capital and the mechanism of capitalist exploitation is the division of capital into constant and variable. It is this division into constant and variable capital that explains where surplus value comes from.

### Constant and variable capital

When he begins production, the capitalist spends part of his capital on building factory premises, on purchasing machinery, raw and other materials and fuel. The size of this capital embodied in the means of production is not changed during the production process. It is merely transferred to the commodity to the extent that the means of production are used up or worn out. Thus, the value of the raw and other materials and fuel is transferred in its entirety to the new product during each act of production. A machine, however, will have a service life of, say, ten years and so will transfer 10 per cent of its value to new output each year. The part of capital that is spent on means of production (machinery, machine-tools, raw materials, etc.) and does not change its magnitude during the production process is called *constant capital*. Marx uses the letter "c" to signify constant capital.

Apart from means of production, the capitalist also pur-



chases labour power, spending on it part of his capital. At the end of the production process, the capitalist receives new value produced by the workers. This new value is greater than that of labour power that the capitalist pays in the form of wages. The part of capital spent on the purchase of labour power, which grows during the production process as a result of the workers creating surplus value, is called *variable capital*, for which Marx uses the letter "*v*".

By discovering the division of capital into constant and variable, Marx revealed the secret of capital, which is that only variable capital creates surplus value. Marx uses the letter "*m*" (from the German *Mehrwert*) to signify surplus value.

Bourgeois economists reject the division of capital into constant and variable. In their attempts to defend capitalism, they do not want to reveal its exploitative nature. They recognise only the division of capital that the capitalist uses in his accounts, i.e., that between fixed and circulating. This division of capital throws light on the production mechanism, but it masks capitalist exploitation.

### Fixed and circulating capital

The division of capital into fixed and circulating is determined by the way the various parts of productive capital transfer their value to the finished product—all at once or bit by bit.

The part of capital that transfers its value to the finished product gradually as it wears out (premises, machinery and equipment) is called *fixed capital*. The part of capital that is spent on raw and other materials, labour power and fuel, etc., transfers its value in its entirety to the output during a single production period and returns to the capitalist in the form of money received from the sale of the commodity, is called *circulating capital*.

The division of capital into fixed and circulating completely masks the fundamental difference between means of production and labour power. Here labour power falls into the same category as raw and other materials and fuel, and stands with them in opposition to the other part of the means of production. This division conceals the special role of labour power as the only creator of surplus value and veils the essence of capitalist exploitation.

The two different ways of dividing capital can be represented graphically as follows:

Division by role in the process of exploitation	Division by nature of circulation			
Constant capital	<table> <tr> <td>Factory premises, installations, equipment, machinery</td><td rowspan="2">Fixed capital</td></tr> <tr> <td>Raw and other materials, fuel</td></tr> </table>	Factory premises, installations, equipment, machinery	Fixed capital	Raw and other materials, fuel
Factory premises, installations, equipment, machinery	Fixed capital			
Raw and other materials, fuel				
Variable capital	Workers' wages			

### The mass and rate of surplus value

Surplus value has a specific magnitude, both absolute and relative. The *absolute magnitude of surplus value* is called the *mass of surplus value*, and it depends on the degree of exploitation and number of exploited workers. The relative magnitude of surplus value is expressed in the *rate of surplus value* or the *degree of exploitation*.

By explaining the division of capital into constant and variable, Marx not only revealed the essence of capitalist exploitation; he also showed how to measure the degree of this exploitation.

Constant capital (*c*) does not create surplus value, so, when determining the rate of surplus value, it must be excluded. Variable capital (*v*) does create surplus value, so, in order to determine the relative magnitude of surplus value, surplus value must be taken in its ratio to variable capital alone. This will give the rate of surplus value, which is a precise expression of the degree of exploitation of labour power. If we signify the rate of surplus value with the letter *m'*, we get the ratio  $m' = \frac{m}{v} \times 100\%$ . Let us illustrate this with an example. Suppose that the capitalist advances 100,000 *c* + 20,000 *v* = 120,000 (in dollars), for the production of commodities, the goods produced are sold for 140,000 dollars. This means that the capitalist receives 20,000 dollars surplus value.

What is the rate of surplus value?

$$m' = \frac{m}{v} \times 100\% = \frac{20,000}{20,000} \times 100\% = 100\%$$

This example shows that the worker's labour is here divided into necessary and surplus equally, i.e., for half the working day the worker works for himself, and for the

other half, he works for the capitalist for no wages. The greater the size of surplus labour compared with the necessary, the greater the degree of exploitation.

As capitalism develops, the rate of surplus value rises. In the USA, the rate of surplus value in the mining and manufacturing industries, as calculated from official data, was 145 per cent in 1889, 165 per cent in 1919, 210 per cent in 1929, 220 per cent in 1939, about 260 per cent in 1947 and is now over 300 per cent.

How is this rise in the degree of exploitation of the workers under capitalism achieved?

## 5. TWO WAYS OF INCREASING THE DEGREE OF EXPLOITATION OF THE WORKING CLASS

### Absolute surplus value

It follows from the above exposition that, under capitalism, the working day is divided into two parts: (1) the necessary labour time required to produce that quantity of commodities with a value equal to that of labour power; (2) surplus labour time, during which the worker works for the capitalist and creates surplus value.

Let us take, as an example, a working day of ten hours, five hours of which are necessary labour time and five hours surplus time. Let us illustrate this graphically:

5 hours	5 hours
necessary labour time	surplus labour time

Here the rate of surplus value will be:

$$m' = \frac{m}{v} = \frac{5 \text{ hours surplus time}}{5 \text{ hours necessary time}} \times 100\% = 100\%$$

If the necessary labour time remains constant then, as the working day is lengthened, the surplus labour time will grow. This will imply a growth in surplus value, the degree of exploitation of the worker. Let us assume that the working day is extended from 10 to 12 hours. The surplus labour time will now be seven hours, not five. In this case, the rate of surplus value will be

$$\frac{7}{5} \times 100\% = 140\%.$$

Marx called surplus value received by extending the working day *absolute surplus value*, and since the capitalist has an insatiable desire for surplus value, he strives to make the working day as long as possible.

What is the limit to which the capitalist can extend the working day? If he could, he would make workers work 24 hours a day, but this is not possible, for they have to rest, sleep and eat. This determines the purely physical limit to the working day.

In addition there are moral limits. The worker is a member of society and he needs time to satisfy his cultural and social requirements (to read newspapers and books, to go to the cinema, to meetings and so on). But since these limits to the working day are flexible, under capitalism the working day may last 8, 10, 12, 14, 16 or more hours a day.

During the initial period of capitalism, in the interests of the bourgeoisie, the state authorities extended the working day by law. Later on, when technology was introduced into production and unemployment grew, the need for legislation to extend the working day disappeared. The capitalist could use economic means to force the workers to work to the limit.

The working class began to wage a persistent struggle for a cut in the working day. This struggle began first in Britain, and it became particularly intensive after the Geneva Congress of the First International and the labour congress in Baltimore in 1866 came out with the eight-hour working day slogan. The working class's struggle led to the majority of capitalist countries introducing legislation to limit the working day. How does the capitalist solve the problem of obtaining more surplus value if he cannot extend the working day?

### Relative surplus value

The second way to increase surplus value is, given a constant length of the working day, to reduce the necessary labour time and thus increase the surplus labour time. How is this done? Let us recall that the value of labour power is determined by the amount of labour that must be spent to produce the worker's means of subsistence. If there is an increase in the labour productivity in the in-



dustries producing consumer goods, the value of these goods drops. This will mean a drop in the value of labour power and, consequently, a reduction in the necessary labour time. This is the basis on which the surplus labour time is increased.

Let us assume that the ten-hour working day breaks down into five hours of necessary labour time and five hours of surplus labour time. Let us further assume that, as a result of a rise in labour productivity, the necessary labour time is reduced from five to three hours. It is then clear that the surplus labour time will increase from five to seven. The degree of exploitation (or rate of surplus value) will be higher, although the working day has remained unchanged.

Graphically this may be illustrated as follows:

$\frac{5 \text{ hours}}{\text{necessary labour time}}$	$\frac{5 \text{ hours}}{\text{surplus labour time}}$
--	--

The rate of surplus value  $m' = \frac{5}{5} \times 100\% = 100\%$

$\frac{3 \text{ hours}}{\text{necessary labour time}}$	$\frac{7 \text{ hours}}{\text{surplus labour time}}$
--	--

The rate of surplus value  $m' = \frac{7}{3} \times 100\% = 233\%$

In this example, the rate of surplus value has increased from 100 to 233 per cent as a consequence of the change in the correlation between the necessary and surplus labour time, rather than as a result of an absolute extension of the working day.

Surplus value arising as a result of a reduction in the necessary labour time and a corresponding increase in the surplus labour time following from a rise in labour productivity is called *relative surplus value*.

Under certain conditions, capitalists also receive extra surplus value.

### Extra surplus value

*Extra (or additional) surplus value* is a variety of relative surplus value. Each capitalist strives to receive more profits, for which purpose he introduces new machinery

and production techniques, and thus achieves a rise in labour productivity and a reduction in the individual value of his commodities compared with the average value of those produced in the given industry. Since the price of the commodity on the market is determined by the average conditions of production, the capitalist receives a higher than usual rate of surplus value.

Extra surplus value is the difference between the social value of the commodity and its lower individual value. It has two features: first, it is received only by individual entrepreneurs, the first ones to introduce new, more productive technology; second, the given capitalist receives extra surplus value only temporarily, for sooner or later the latest equipment will be used in other enterprises, and then the capitalist who first introduced it is deprived of his advantages to receive extra surplus value. But the extra surplus value that disappears in one enterprise appears in another, because another entrepreneur has made an even more sophisticated innovation.

Extra surplus value plays an important role in the development of capitalism. In the pursuit of extra surplus value there is a spontaneous development of technology. But the capitalist who introduces the latest technology and production techniques tries to keep them a secret in order to delay their introduction in other enterprises. This intensifies the competition and contradictions between capitalists.

Thus, the pursuit of extra surplus value leads to a development of the productive forces, on the one hand, and to a slowdown in their development, on the other.

### The three stages in the development of capitalism in industry

The production of relative surplus value is based on a growth in labour productivity, so analysis of relative surplus value reveals the three historical stages in the growth of labour productivity under capitalism: simple co-operation, manufactory and machine industry. The first and simplest way in which labour productivity was increased was *capitalist simple co-operation*, which meant essentially that the capitalist concentrated a comparatively large number of workers doing identical work in one workshop.

When many people fulfil one and the same job jointly, the capitalist can, by comparing their individual labour productivity, make the workers speed up their rate of work. The result is a rise in labour productivity. For example, the labour productivity of five people working together is much higher than their productivity when they work in isolation. This new labour productivity costs the capitalist nothing, for he pays the same amount for the labour power as previously, but since more output is produced, he receives higher profits. Moreover, with joint labour of many workers, the capitalist economises on premises, lighting, heating, and other overheads.

When people work together it becomes clear that some workers do certain operations better, while others do other ones better. As a result, it is more profitable for the capitalist to have each worker carry out the particular job that he is best at. Thus, division of labour is gradually introduced into workshops. Capitalist enterprises based on division of labour and handicraft techniques are called *manufactories*.

Division of labour among the workers entailed a sharp increase in the productivity of labour. As an example, let us look at pin-manufacture in the 18th century. A workshop with ten workers produced 48,000 pins a day, i.e., 4,800 pins per worker. Without division of labour, however, each worker made only 20 pins a day. The productivity of labour thus increased 240-fold.

The working conditions in the manufactory were very hard. The worker had to repeat the same simple movements continuously, and this deformed him both physically and spiritually. The working day was up to 18 hours long and wages were very low.

Manufactory prepared the conditions necessary for a transition to large-scale machine industry: (1) simplification of operations increased the opportunities for replacing the worker's hands with working machines; (2) the fulfilment of individual operations gave rise to specialisation of instruments of labour and this created the technical preconditions for the emergence of machines; (3) manufactory trained personnel skilled for machine industry. This was the historical role played by manufactory.

Manufactory was the transitional stage to the factory. First the so-called working machine appeared: it carried

out the same operations as the workers themselves had previously. But it was beyond the workers' muscular strength to operate such a machine, so the motor mechanism—the steam engine—was invented to set many working machines in motion. The *capitalist factory*, based on the use of a system of machines for producing commodities, thus appeared.

As a result of the use and improvement of machines, there was a tremendous rise in labour productivity and commodities became cheaper. At the same time, however, an enormous number of small producers and enterprises based on manual labour were ruined.

The capitalist factory is a new stage in the fettering of labour by capital. In the factory, the worker becomes no more than an appendage to the machine. The capitalist use of machinery leads to an extension of the working day, to the drawing of women and children into production, to the formation of armies of unemployed people and to a deterioration in the situation of the proletariat. But the capitalist does not always use machines. Under capitalism there are limits to the use of machines determined by the fact that the capitalist only introduces machines when the price of the machine is below that of the wages of the workers it displaces. The capitalist uses a machine only when profitable, so machine production does not do away with manual labour, which still exists today in the most developed capitalist countries, such as the USA and Britain.

The transition from manufactory to the factory means the final establishment of the capitalist mode of production.

## The basic contradiction of capitalism

On the basis of large-scale machine industry there is a spontaneous socialisation of labour and production. In place of small workshops using manual labour there appear huge factories and plants serviced by thousands and thousands of workers with various trades. There is an increase in the division of labour in social production. All enterprises and industries are interlinked and interdependent. Engineering plants, for example, cannot operate without the output of iron-and-steel works, the latter without coal, and



mines depend on engineering and other plants. Production thus becomes social in character. Commodities are the result of the labour of many hundreds of thousands of workers.

Meanwhile, under capitalism all enterprises, as well as the land and minerals, are privately owned. The products of social labour are appropriated by the capitalists. *A contradiction arises and develops between the social character of production and the private capitalist form of appropriation. This is the basic contradiction of capitalism.*

The basic contradiction of capitalism reflects that between the constantly developing productive forces and capitalist relations of production. By increasingly socialising production, capitalism acts as a brake on the further development of society's productive forces. In order to take this brake off, capitalist property must be eliminated. Capitalism develops the productive forces, and thereby gives birth to its own gravedigger—the proletariat, a force called on to abolish private property and replace it with public, socialist property.

## 6. WAGES UNDER CAPITALISM

### The essence of wages

We have explained that labour power is a commodity under capitalism. It has a value. The value of labour power, expressed in money terms, is the *price of labour power*.

In order to conceal capitalist exploitation, bourgeois economists assert that wages are the price of the worker's labour. The worker supposedly works in the capitalist factory, producing various commodities and receiving the price of his labour for his labour, i.e., wages.

The impression that wages are payment for work performed is created by the fact that the worker receives his wages after having worked for a specific period of time. Moreover, wages are either set in accordance with the amount of time worked (hours, days, weeks), or with the quantity of the articles produced. In actual fact, wages are, as Marx put it, a transmuted, i.e., a masked form for value, or the price of labour power.

Labour is not a commodity, so it has no value or price. In fact, in order for labour to be sold, it must exist before

the sale. Something that does not exist cannot be sold. When, for example, a cobbler puts his boots on the market, they actually exist and can be sold. But when the worker is hired by the capitalist, his labour does not yet exist. There is only his ability to work, his labour power. This is what the worker sells to the capitalist. When the capitalist purchases labour power and pays money for it, it is not the worker as such that interests him, but his ability to work, his ability to create surplus value.

Since in capitalist society wages outwardly appear as the payment for labour, the impression is inevitably created that all the worker's labour is paid for. Let us assume that six hours of socially necessary labour time are required to produce means of subsistence for the worker and his family. If one hour of this time is expressed in one dollar, the value power is six dollars. The capitalist pays the full value of the labour power—six dollars, but the working day lasts, for example, twelve hours. One hour of labour is, in fact, paid at a rate of fifty cents. Wages conceal the fact that the capitalist pays for one half of the working day, but not for the other. Thus, wages erase any sign of the division of the working day into necessary and surplus, paid and unpaid. Wages create the impression that all the labour of the wage worker is paid for, and thus conceal exploitation. This is one of the most important features distinguishing capitalism from all previous exploitative societies.

Under slavery, for example, exploitation was in its most flagrant form. The slave was a thing belonging to his master, who could do anything he liked with him: make him work from morn till night, give him hardly any food, he could even kill him and, of course, paid him nothing at all. Under feudalism, the serf paid his landowner rent in some form (labour, kind or money). Under capitalism, however, there is concealed exploitation. It even seems as if there is no exploitation, that the worker receives payment for all his labour. Wages mask the exploitation of the workers under capitalism.

### Forms of wages

Under capitalism, wages take various forms. If the payment of the value of the commodity labour power is for a

certain time worked—a day, week, month, etc., these are *time wages*.

In order to get a correct idea of the essence of time wages under capitalism, they must be compared with the length of the working day. For instance, a capitalist pays a worker ten dollars for a ten-hour working day. The average price of one hour of labour is one dollar. If, however, the capitalist extends the working day to twelve hours, the price of one hour of labour drops to 83 cents. So it is clear that, for the capitalist, the system of time wages is a means for increasing the exploitation of the workers. Alongside time wages there also exists another form—piece wages.

*Piece wages* depend on the quantity of commodities or parts made by the worker over a particular period of time (such as an hour or a day).

Marx called piece wages a converted form of time wages. Indeed, in order to establish the rate of payment for each unit produced, account is taken of, first, the daily time wages and second, the number of articles made by the most skilled and strongest worker.

If the daily time wage is ten dollars and the number of articles produced by this worker is twenty a day, the capitalist will pay fifty cents per article. Thus, the capitalist ensures that piece wages do not exceed time wages. What then, is the point of piece wages? They have a number of specifics that make them more profitable for the capitalist. Under piece wages, for instance, the quality of the labour is controlled by the product. The capitalist pays for articles of average and high quality. Low quality articles are not paid for. This form of payment increases the tension involved in the worker's labour; he strives to produce more output and thus receive more money. But as soon as all the workers increase their output, the capitalist reduces the rate he pays for each item, and thus increases his own profits. Marx therefore says that the more the worker works, the less wages he receives.

Capitalists use various forms of payment of labour, depending on the specific conditions.

Historically, time wages appeared before piece wages. They were used widely in the early stages of the development of capitalism, when the capitalists were striving to increase the surplus value by extending the working day. This form of payment was profitable for them at the time. Later, when the length of the working day was restricted

by law, piece wages became widespread. Under contemporary conditions, various forms of *time-rate-bonus* system are becoming increasingly popular.

The reason for the return to time wages is that, in modern capitalist industry, many industries have gone over to production lines using conveyors that impose their own rhythm. This means that the speed of production does not depend on the worker, but is determined by the speed of the conveyor or the specifics of production process. The workers work more and more intensively, without any increase in their wage rates.

Time and piece wages are also often used together in the same enterprises. Under capitalism, these forms are just different ways of intensifying the exploitation of the working class.

In the pursuit of increased surplus value, the capitalists also use various *sweating systems* for organising the production process and wages. Essentially the idea here is to wring as much labour as possible out of the worker during a certain period of time. There are dozens of different types of sweating system of wage payment.

One of the first such systems was the *Taylor system*, named after the American engineer who thought it up. The essence of this system is as follows: the capitalist selects the strongest and most skilled worker in the enterprise and makes him work full out. The time he takes to fulfil each particular operation is registered by a chronometer in seconds and fractions of a second. These data are then given to a special technical commission, which studies them and, on this basis, decides the production regime and time rates for all the workers. Two wage rates are set: one, a raised one for those who fulfil the job and another, very low one, for those who do not. The result of such a wage system is a sharp increase in labour productivity, virtually no increase in the workers' wage fund, and consequently, a tremendous rise in the exploitation of labour.

Another form of sweating system is *Fordism* which pursues the same goal of wringing the maximum possible labour out of the worker. This is achieved by speeding up the conveyor. If, previously, for instance, the conveyor moved at a speed of three metres a minute, its speed is now increased to four or five metres a minute. The worker is compelled, against his will, to work more intensively and exert greater efforts, while wages remain unchanged



and do not compensate for the vital energy spent. Under this system, many workers are completely worn out by the time they reach the age of 45 or 50 and are dismissed by the factory owner.

Moreover, the simplicity of the labour operations on the conveyor allow the capitalists to use unskilled workers, set lower wage rates for them and, consequently, receive higher profits.

Another sweating system is the *participation in profit system*, which consists in the capitalist telling the worker when he is hired that he will be paid less than by other capitalists, but at the end of each year, after the enterprise's accounts have been settled, workers who have worked well will receive a share of the profits.

This system increases the intensity of labour and retards the development of the class consciousness of the workers, disuniting them and hampering them in their struggle against entrepreneurs. The participation in profit system gives the workers the impression that they have a vested interest in raising the profitability of the capitalist enterprise.

## Nominal and real wages

In the first stages of the development of capitalism, the worker was rarely paid in money. The usual thing was for the capitalist enterprise to have its own factory shop selling food and consumer goods. The workers took what they needed from this shop and, at the end of the month or season, the capitalist calculated how much work had been done and how many commodities had been taken. It usually turned out that either no money at all or only a minimal sum of money was due to the worker.

Today the system of payment in kind is widespread in the economically backward and underdeveloped countries. In the developed capitalist countries money wages predominate.

Wages expressed in money terms are called *nominal wages*. Nominal wages cannot, however, show the actual level of payment of the worker; for determining this the concept of real wages is used. Real wages are expressed in terms of the worker's means of subsistence. In other words, *real wages* show how many and precisely which

means of subsistence the worker can buy for himself and his family with the money he has earned.

In determining real wages account must be taken of: the size of nominal wages, the price level for consumer goods and services, the size of taxes, the size of rents and other payments. As capitalism develops, real wages tend to fall.

There are a number of reasons for the drop in real wages under capitalism. The most important is rising prices. Let us suppose that a worker's nominal wage rises somewhat. If, however, prices rise faster than wages, the worker can buy fewer goods for the same money, i.e., his real wages fall. This is precisely what is happening at present in the capitalist countries: prices are rising faster than wages.

Another reason for the drop in real wages is the increase in taxes and other payments (for housing, gas, electricity, water, etc.). The rise in these payments reduces wages, the result being a drop in real wages. A major role in reducing real wages is played by various production fines, deduction, etc.

Such are some of the factors responsible for the drop in the real wages of the working class under capitalism.

In the capitalist countries there exists *inequality of payment for the labour of men and women*. Female workers receive considerably lower wages than men for doing the same work. This difference in the wages of men and women brings in considerable additional profits to the capitalist.

Another source of tremendous profits for capitalists is *race discrimination*. In the USA, for instance, black people work under worse conditions than white people do. They are employed primarily for the most difficult, harmful work, that endangers both their health and life. Black people receive considerably less than white people for their labour. The average wage of a black family in the USA is 54 per cent of that of a family of European extraction.

In the West European countries there is discrimination against foreign workers. Labour power is imported not only because there is a shortage of it, but also because lower wages may be paid to foreign workers. Foreigners are willing to do any sort of work, including the worst paid, since they cannot find any work at all in their own countries.

Female labour, the labour of foreign workers, and racial discrimination all allow the capitalists to raise the already substantial rate of surplus value.

The level of workers' wages differs from one capitalist country to another. There are many reasons for this. It would, of course, be wrong to suggest that the capitalists are kinder to the workers in some countries than in others. All capitalists everywhere strive to cut wages to the absolute minimum. In comparing the wage levels in different countries, however, account must be taken of the historical conditions under which the working class formed in each particular country and the existing level of its requirements, outlays connected with the acquisition of skills, labour productivity, the class struggle and other conditions characteristic of this country.

In the USA, for instance, capitalism developed when there was a shortage of labour rather than an excess of it, the result being higher wages. In Britain the working class organised itself against the capitalists earlier than in other European countries, with the result that the wages of British workers were higher than, say, Irish ones.

These circumstances account for national differences in wage levels.

### The struggle of the working class for higher wages

The capitalists are constantly striving to cut workers' wages and set a wage level adequate for only the most essential means of subsistence, their aim being to gain more and more profits. In its struggle against the working class, the bourgeoisie makes use of the state, the law, the church, the mass media, and so on. Moreover, the capitalists themselves unite in alliances of entrepreneurs and act against the workers as a united front.

For their part, the workers unite against capital in trades unions, which organise the working class in its struggle for a better economic situation. The working people's chief demands in this struggle are: higher wages, better working conditions, work guarantees, etc.

It is as a result of the fierce class struggle between the proletariat and the bourgeoisie that particular wage levels are set. When the workers are persistent and resolute in their

strike struggle, the capitalists often have to accept their conditions and raise their wages. The struggle by the working class for a better standard of living is now becoming particularly broad in scale in the major capitalist countries—the USA, Britain, France, the FRG, Italy and so on.

In recent years the strike movement has been characterised by a high level of class consciousness and organisation of the working people and an extension of the range of their demands in the course of class battles, mass-scale demonstrations by the most diverse strata of the working people, and a close intertwining of the economic and political struggles. In the citadels of capitalism, as has been confirmed once more by recent events, the working class is the chief motive and mobilising force in the revolutionary struggle and the entire democratic, anti-imperialist movement.

The economic struggle of the proletariat is of major significance. Marxism-Leninism teaches, however, that, while the economic struggle of the working class is very important, on its own it cannot liberate the workers from exploitation. Only when the capitalist mode of production is destroyed through a revolutionary, political struggle will the conditions for the economic and political oppression of the working class be eliminated.

### REVISION EXERCISES

1. What is the essence of primitive accumulation?
2. What is the general formula for capital and how does it differ from that for commodity circulation?
3. Describe the commodity labour power.
4. What exactly is capitalist exploitation?
5. What are necessary and surplus labour time?
6. What is the essence of capital?
7. What is the basis of the division of capital into constant and variable?
8. How can the degree of exploitation of labour power be determined?
9. What are the ways of increasing the degree of exploitation of labour power and what is their essence?
10. Describe the three stages in the development of capitalism in industry.



11. What is the basic contradiction of capitalism and what were the reasons for its appearance?
12. How, under capitalism, do wages conceal the exploitation of the working class?
13. Describe the basic forms of wages.
14. What are nominal and real wages?
15. What influence does the economic struggle of the working class exert on wages?

## Chapter IV

# THE ACCUMULATION OF CAPITAL AND THE DETERIORATION IN THE CONDITION OF THE PROLETARIAT

We have seen that surplus value is engendered by capital. But capital, in turn, arises from surplus value. How does this happen? In order to answer this question, we must find out the mechanism of capitalist reproduction.

## 1. THE ACCUMULATION OF CAPITAL AND FORMATION OF AN ARMY OF UNEMPLOYED

### Reproduction and accumulation of capital

By production we mean the process of the creation of material wealth. Under capitalism, the entrepreneur buys means of production and labour power on the market and, as a result of productive activities, people create material wealth. The production process is then completed. Society cannot stop producing, for a halt to the production of material wealth would mean its downfall. The production of material wealth must, therefore, be a continuous process, i.e., it must go through the same stages over and over again. This constantly renewing and continuously repeating process of the production of material wealth is called *reproduction*.

The reproduction process takes place in any society, but the motive forces behind reproduction differ from one society to another. Under capitalism, the motive force behind reproduction is the capitalists' pursuit of surplus value.

Material wealth is produced and reproduced not to satisfy the requirements of the working people, but in order that the capitalist might receive profits.

During the process of capitalist reproduction, surplus value is created and then appropriated by the capitalist. But we are interested not only in the appropriation of surplus value, but also in how it is used, i.e., spent. If the capitalist uses all the surplus value for his own personal consumption, this is *simple reproduction*. The capitalist has advanced capital of, say, 200,000 dollars, of which 160,000 are constant and 40,000 variable. With a 100 per cent rate of surplus value, 240,000 dollars worth of output will be produced, assuming that the entire constant capital is included in the value of the product ( $160,000 c + 40,000 v + 40,000 m = 240,000$ ). These 240,000 dollars consist of the 200,000 dollars of the initial outlays advanced, plus 40,000 dollars of surplus value created by the labour of the workers during the production process.

Since, under simple reproduction, the entire surplus value goes for the personal consumption of the capitalist and his family, the production process in the future will be repeated on the same scale. The same thing will happen in subsequent years. Although, under simple reproduction, the process of the production of material wealth is repeated on the same scale, analysis reveals the source from which capitalists are enriched.

During the production process the capital initially advanced is reproduced and surplus value is created and then spent by the capitalist for his own personal needs.

If the capitalist did not appropriate the surplus value, the entire capital initially advanced would eventually be used up on his personal consumption. In our example, the capitalist spends 40,000 dollars a year, and so, since the initial capital was 200,000 dollars, nothing would be left in five years. But this does not, in fact, happen, because the sum the capitalist spends on his own personal needs is surplus value created by the unpaid labour of the workers.

Whatever the original source of the advanced capital, in the course of simple capitalist reproduction this capital becomes, after a certain time, a value created by the labour of the workers and appropriated without recompense by the capitalist.

One very important circumstance follows on from this.

When the working class, in the course of the socialist revolution, expropriates the capitalists, taking away their factories and plants, all it is doing is reclaiming what was created by the labour of generations of the working class. This means that the elimination of private capitalist property is a lawful act, is historical justice.

We have assumed that the capitalist spends the entire surplus value on his personal needs. But is this always the case? In the first stages of the development of capitalism, this often actually happened. The capitalist then exploited only a small number of workers and sometimes worked himself. The situation changed when capitalist enterprises began to develop on the basis of large-scale machine industry; they expanded and the capitalist began to exploit thousands and thousands of workers. If, for example, the capitalist hires 1,000 workers and pays them an annual total wage of two million dollars, given a 100 per cent rate of surplus value, the workers create two million dollars worth of surplus value a year for the capitalist. Then he spends not the entire surplus value for his personal needs, but only part of it. The rest is used to expand production, to purchase new machinery and raw materials and take on extra labour power. Here we are now dealing with *extended reproduction* or the *accumulation of capital*, when part of the surplus value is capitalised.

Let us use an example to illustrate the process of the conversion of surplus value into capital. Assuming that the capitalist has 10 million dollars worth of capital and that he advances eight million of this sum on constant capital and two million on variable capital, taking the rate of surplus value as 100 per cent, providing the entire constant capital is included in the value of the product, the result of the production process will be commodities worth 12 million dollars ( $8 \text{ million } c + 2 \text{ million } v + 2 \text{ million } m$ ).

Now let us assume that the surplus value, equal to two million dollars, is distributed by the capitalist as follows: one million on extending production and one million on personal consumption. The part of the surplus value spent on expanding production is spent on both constant and variable capital in the same proportions as was the capital initially advanced, i.e., 4 : 1 ( $800,000 c + 200,000 v$ ).

Consequently, during the second year, capital worth 11 million dollars ( $8,800,000 c + 2,200,000 v$ ) will be functioning. If the rate of surplus value remains at 100 per



cent, during the second year commodities worth 13.2 million dollars ( $8,800,000 c + 2,200,000 v + 2,200,000 m$ ) will be produced.

The second year saw an expansion of the volume of production and an increase in the mass of surplus value, since part of the surplus value received during the first year was converted into capital. Surplus value is thus a source of accumulation of capital. Through capitalisation, i.e., the addition of surplus value to capital, the capitalist increases the size of his capital.

The capitalist's insatiable desire to appropriate surplus value for his own enrichment results in him constantly expanding the scale of his production. Moreover, competition compels each capitalist, under threat of ruin, to improve his technology and expand production. To halt the growth of technology and the expansion of production would be to drop behind, and those who drop behind fall prey to their competitors.

If, however, capitalists constantly expand their production, does this mean that they are reducing the share of surplus value spent for personal consumption? Not at all. As the capitalist class grows richer, the part of surplus value used to satisfy personal needs actually increases. Today's millionaires in the USA, for instance, spend about 25 per cent of their incomes on their personal needs. Some millionaire families have several houses, expensive yachts, dozens of luxury cars and planes. The vast scale on which American millionaires spend is also evidenced by the fact that, at a reception given by one of the 60 richest families in the USA every season, enough money is spent for an ordinary family of five to live adequately for their whole lives. All this indicates that accumulation of capital is accompanied by a growth in the parasitism and wastefulness of the capitalist class.

Representatives of so-called vulgar bourgeois political economy explain the accumulation of capital by the thriftiness of the capitalists who, so they say, restrict their own consumption for the sake of society.

The strongest proponent of such views was the 19th-century British economist Senior. "I substitute", he proudly says, "for the word capital, considered as an instrument of production, the word abstinence".<sup>1</sup>

<sup>1</sup> Quoted from: K. Marx, *Capital*, Vol. I, pp. 559-60.

Concerning this "abstinence", Marx pointedly remarks that the capitalist restricts his consumption by "lending" the workers instruments of labour, rather than by himself using steam engines, railways, fertiliser, etc. Marx unmasks this apologetic theory and ironically notes that simple humanity dictates that the capitalist be released from this "martyrdom" by depriving him of his right to own the means of production.

At the end of the 19th century, Senior's theory was revived in a somewhat changed form by the British economist Alfred Marshall and the American economist Thomas Carver, who simply replaced the word "abstinence" with "expectation".

All these "theories" are geared to justifying capitalism and capitalist exploitation. In fact, however, the accumulation of capital and the scale of this accumulation depend not on the capitalist's "abstinence", as bourgeois ideologists try to show, but on *exploitation of the working class*. Let us take, for example, capital of  $8,000 c + 2,000 v$ . Given a 100 per cent rate of surplus value, 2,000  $m$  will be received, or 4,000  $m$  given a rate of 200 per cent. Consequently, the greater the degree of exploitation, the more surplus value is created and the greater the size of accumulation. A rise in the degree of exploitation of labour power is achieved by extending the working day, increasing the intensity of labour, reducing wages below the value of labour power, and so on.

A major factor speeding up the accumulation of capital is *a rise in the productivity of labour*, which entails a cheapening of commodities. This permits the capitalist to: a) reduce the value of the commodity labour power, this allowing him, for the same sum of variable capital, to set in motion a greater mass of live labour and thus produce more output and, consequently, surplus value; b) increase his personal consumption without reducing the share of surplus value going to expand production; c) expand production faster by using cheaper machinery and without increasing the capitalised surplus value.

The scale of the accumulation of capital is also affected by the *size of the advanced capital*. With the given ratio of  $c$  to  $v$ , the greater the size of capital, the greater, also, will be the size of the variable capital, so, *ceteris paribus*, the scale of the accumulation of capital depends directly on the size of the capital initially advanced. Such are the

chief factors determining the size of the accumulation of capital.

How does the accumulation of capital affect the situation of the working class? For an answer to this question, we must first look at Marx's teachings on the organic composition of capital.

### The organic composition of capital

In his theory of surplus value, Marx discovered the division of capital into constant and variable, and thus disclosed the true source of surplus value. In his teachings on the accumulation of capital, he enriched this postulate with his theory of the organic composition of capital.

The composition of capital may be considered from two angles: physical and value.

The composition of capital in terms of value is determined by the ratio into which capital divides between constant and variable and is called the *value composition of capital*.

In its physical form, the capital functioning in the process of production is divided into means of production and labour power. The composition of capital determined by the ratio between the mass of means of production used and the amount of labour power required to operate them is called the *technical composition of capital*. This correlation depends on the amount of machinery and equipment in the given enterprise.

There is a close interdependence between the value composition of capital and its technical composition. As a rule, a change in the technical composition of capital leads to a change in value terms. Thus, the ratio between constant and variable capital, i.e., the value composition of capital, in as far as it is determined by the technical composition of capital and reflects changes in it, Marx called the *organic composition of capital*.

Consequently, the organic composition of capital is the ratio  $c:v$ . For example, if capital consists of  $800\ c + 200\ v$ , the organic composition of capital will be  $4:1$ . The composition of capital in value terms must not be confused with its organic composition. The value composition of capital may change continuously in response to fluctuations in the market prices of means of production and labour power. The organic composition of capital only

changes under the impact of a change in the technical make-up. As capitalism develops and the accumulation of capital increases, there is a continuous growth in the organic composition of capital. Thus, in the manufacturing industry of the USA in 1889 it was  $4.5:1$ , in 1939— $6:1$  and in 1966— $8:1$ .

The growth in the organic composition of capital reflects the fact that, as production grows, there is an increase in the mass of raw materials, machinery, instruments and equipment compared with the amount of labour power used in production. If, for example, the initial organic composition of capital was  $1:1$ , later it becomes  $2:1$ ,  $3:1$ ,  $4:1$ ,  $5:1$  and so on. This means that the share of variable capital in total capital drops from  $\frac{1}{2}$  to  $\frac{1}{3}$ ,  $\frac{1}{4}$ ,  $\frac{1}{5}$ ,  $\frac{1}{6}$ , etc. Since, however, the demand for labour is determined not by capital in its entirety, but only by the variable part, the relative drop in variable capital results in the rate at which workers are drawn into production becoming slower and slower and falling behind that of accumulation of capital.

As a result, an increasing share of workers are unable to find an application for their labour. Part of the working class proves to be "surplus", in excess of the requirements of the accumulation of capital. So-called surplus population, or *relative surplus population*, unemployment, develops.

When there is a constant relative surplus population the capitalist law of population, discovered by Marx, makes itself felt. The essence of the capitalist law of population consists in the fact that, the more surplus value is created, the greater the accumulation of capital and the greater its organic composition. And, the greater the accumulation of capital and its organic composition, the less labour is drawn into the production process.

### The industrial reserve army and its forms

The fact that workers are ousted from the production process results in the formation of an army of unemployed people in the capitalist countries.

The main reason for the formation of an industrial reserve army under capitalism is the rise in the organic com-



position of capital, i.e., the more rapid growth of constant than variable capital. In addition, however, there are other factors that intensify the growth of unemployment: a) an extension of the working day and a higher intensity of production, since capitalists make use of the presence of an army of unemployed to force workers who have jobs to work for two, three, or more people and this facilitates the growth of the industrial reserve army; b) the spread of female and child labour, because the use of technology and simplified job operations make it possible for women and children to be drawn into production and, since their labour is paid for at a lower rate, male adults are dismissed; c) the ruin of small producers, since the accumulation of capital is accompanied by an intensification of the process by which the small producers—peasants and artisans—are ruined and swell the ranks of the army of unemployed.

The industrial reserve army of labour is essential for capitalism to exert a constant pressure on those workers who are in work; it allows the capitalist to reduce the workers' wages and increase the intensity of labour, on threat of dismissal, i.e., to step up the exploitation of the working class. This is why the capitalists have a vested interest in a certain level of unemployment being maintained.

Relative surplus population, or unemployment, takes a variety of forms in the capitalist countries. There are three main ones: *floating*, *latent* and *stagnant*. Let us consider each in turn.

*Floating* relative surplus population consists in the mass of workers getting jobs then losing them again, so that, overall, there are always a certain number of unemployed people. Workers are drawn into production when there is expansion and new enterprises are being opened, but they are dismissed again following a cut in production, the introduction of new machinery, the closure of enterprises, and so on. This form of unemployment is the most widespread in towns and industrial centres.

*Latent* surplus population, or *agrarian overpopulation*, consists in there being a permanent surplus of workers in agriculture. This surplus appears because the small peasants, who own minute plots of land, can hardly make ends meet and are always prepared to sell their labour power, if a purchaser can be found.

At the same time, a differentiation takes place of the

peasantry; it becomes stratified into rich and poor. A huge mass of agricultural proletariat forms, consisting of people working for wages for rich peasants, the rural bourgeoisie. But the rich peasants and capitalist farms, which own most of the land, make increasing use of machinery and the demand for workers in agriculture drops in absolute terms. In order just to survive, agricultural labourers go to the towns and industrial settlements, and there swell the ranks of the unemployed.

The *stagnant* form of relative surplus population consists in the existence of a mass of workers without permanent jobs (those doing outwork at home or on a daily basis, and so on). The standard of living of these workers is considerably below the average for the working class as a whole.

Apart from these main forms there is also the lowest level of surplus population, including vagrants, criminals, beggars, etc.

As capitalism develops, relative surplus population grows. Under capitalism, unemployment is an undeniable fact, so bourgeois economists were faced with the problem of explaining its emergence and existence.

### Malthus's misanthropic population theory

The majority of bourgeois economists attempt to explain the emergence of unemployment and poverty by the eternal and natural laws of nature. The most reactionary theory was put forward in 1798 by Malthus, a British economist and clergyman. His basic thesis was that, right from the emergence of human society, population had supposedly been multiplying geometrically (1, 2, 4, 8, etc.), while the means of subsistence, owing to the limited nature of natural wealth, grows only arithmetically (1, 2, 3, 4, and so on). According to Malthus, this correlation means that vast numbers of people on Earth are superfluous: they cannot find work or food. Malthus drew his conclusion on a false statistical basis.

In spite of the fact that Malthus's theory is patently absurd, the bourgeoisie greeted it enthusiastically, since it allowed all the sores of capitalism to be justified. Unemployment could be explained by the overrapid absolute growth in the numbers of the working class, and poverty by

the surplus of "eaters" and shortage of means of subsistence. In Malthus's opinion, the proletariat could be delivered from unemployment, poverty and starvation not by abolishing the capitalist order, but by refraining from marrying or by artificially limiting the birth rate. In addition, Malthus considered calamities such as wars, epidemics, and so on as boons for humanity: they destroy the "surplus" numbers of population and make its size correspond to the amount of means of subsistence available.

Progressive-minded people in all countries immediately took up arms against Malthus's doctrine. The active fighters against misanthropic Malthusianism included the Russian revolutionary democrats Chernyshevsky, Pisarev, and others.

In his theory of the accumulation of capital, Marx completely unmasked the falsity of Malthus's assertions. Yet Malthusianism still finds its supporters in the capitalist world. It has become particularly widespread in the USA. For instance, William Vogt's book *Road to Survival* asserts that only 500 to 900 million people can live on Earth and that the rest are redundant people who should be annihilated. Robert Cook's book *Human Fertility: The Modern Dilemma* states that the population growth constitutes a terrible threat to human existence.

The real reason for unemployment, poverty and starvation under capitalism was proved scientifically by the founders of Marxism-Leninism. It is the capitalist mode of production, with its thirst for accumulation of capital, that engenders unemployment, poverty and starvation among the working people. In order to get rid of these evils, the overthrow of capitalism in a revolutionary way is necessary. This is graphically evidenced by the development of the socialist countries.

## 2. THE GENERAL LAW OF CAPITALIST ACCUMULATION

### The essence of the general law of capitalist accumulation

The deterioration of the situation of the working class and growing unemployment are a result of the operation of the laws of capitalist production rather than the laws of nature. "The greater the social wealth," Marx wrote, "the

functioning capital, the extent and energy of its growth, and, therefore, also the absolute mass of the proletariat and the productiveness of its labour, the greater is the industrial reserve army.... But the greater this reserve army in proportion to the active labour army, the greater is the mass of a consolidated surplus-population, whose misery is in direct proportion to the torment of the active labour. The more extensive, finally, the lazarus-layers of the working-class, and the industrial reserve army, the greater is official pauperism. *This is the absolute general law of capitalist accumulation*".<sup>1</sup>

And so, the general law of capitalist accumulation consists in the accumulation of capital creating the conditions for a growth of wealth at one pole—in the hands of the capitalist class—and a growth of unemployment and shortage of means of subsistence at the other—among the working class. The general law of capitalist accumulation is a concrete manifestation of the operation of the basic economic law of capitalism—the law of surplus value. It is the pursuit of greater surplus value that leads to the accumulation of wealth, to the luxury, parasitism and wastefulness of the bourgeoisie. The more wealth the bourgeoisie accumulates, the greater the army of the unemployed, the higher the degree of exploitation of those workers who have jobs, and the worse their material situation. The accumulation of capital and deterioration of the situation of the proletariat are, therefore, two inseparable aspects of capitalist society.

### Relative and absolute deterioration of the position of the proletariat

As capitalism develops, there is a *relative deterioration of the position of the proletariat*. This means that as the social wealth grows, the share of the workers in the total value newly created in society (i.e., in the national income) falls while that of the capitalists rises.

A clear example of the progressing relative impoverishment of the working class is provided by the developed capitalist countries—the USA, Britain, France, and others. Thus, the share of the working people in the US national

<sup>1</sup> K. Marx, *Capital*, Vol. I, p. 603.



income in 1890 was 56 per cent, while in 1923 it was 54 per cent and at present it is less than 50 per cent.

Yet, while the share of the working class in the national income is falling, that of the capitalist class is constantly rising. In the USA the exploiting classes appropriate over half the national income, while they constitute only about a tenth of the whole population of the country.

The relative worsening in the condition of the working class is expressed in a change in the correlation between wages and profits to the detriment of the working class and to the benefit of the capitalists.

The general law of capitalist accumulation engenders a tendency towards an absolute worsening of the material condition of the working class, too.

Under capitalism, the lot of the worker is an existence full of insecurity concerning the future. The accumulation of capital constantly reproduces the worker as a wage worker, throwing him on to the labour market and turning him into a subject of exploitation. On the one hand, it dooms the greater part of the working class to excessive labour and terrible exploitation; on the other, it creates a vast army of unemployed people.

The *absolute deterioration of the position* of the working class means a worsening of the workers' working and living conditions: a drop in real wages, a rise in the cost of living, an increase in the army of unemployed in both town and countryside, a rise in the intensity of labour, a deterioration of housing conditions, and so on. Let us take a closer look at some of these factors.

The cost of living in the capitalist countries is rising. Thus, for example, taking the cost of living index in the USA in 1970 as 100, the figures for 1975 and 1978 would be 139 and 168 respectively. Consequently, the cost of living in the USA rose by 68 per cent from 1970 to 1979.

In the USA, the method used to calculate the officially accepted poverty line (in official documents it is called the minimum standard of living) is based on the family food budget. It follows that, as the cost of living rises, the poverty line also rises. In 1964 it was 3,130 dollars a year for an urban family of four; in 1969—3,743, in 1972—4,275, and in 1973—4,500 dollars. According to official data, in 1969 there were 24.3 million people with incomes below the official poverty line, while in 1973 there were 25.5 million and in 1979—26 million.

In 1978, the cost of living index (1970=100) was: 270, in Britain; 224, in Australia; 167, in Austria; 179, in India; 310, in Spain; 309, in Mexico; 270, in France; and 211, in Japan.

The major factor accounting for the tendency towards an absolute worsening in the condition of the working class under capitalism is *growing unemployment*. Mass unemployment is constant and chronic in the capitalist countries. Apart from people who are completely out of work, there are millions of partially unemployed, working less than a full working week or day. Thus, in the USA, after the Second World War the number of fully unemployed was two to three million, while in 1978 it was six million. Almost ten million workers are not in full time work. During the 1970s, the army of unemployed in the developed capitalist countries doubled and in 1980 they numbered 19 million.

Unemployment means deprivation and suffering not only for the workers themselves; it makes the condition of the entire working class worse, since the capitalists use it to reduce wages.

One indication of the drop in the standard of living of the working class is the *continuous rise in the intensity of labour* in capitalist enterprises. Excessive intensification of labour, together with the lack of the necessary safety measures, leads to injury on a mass scale. In the USA, for instance, one worker is killed or crippled at work every three minutes and one worker receives some kind of injury every 11 seconds.

While considering the question of the tendency towards an absolute impoverishment of the proletariat, account must be taken of the condition of the working people in the economically backward and dependent countries, where imperialism has left a legacy of poverty and a high death rate, and also of the ruin and impoverishment of the overwhelming majority of the peasantry and artisans in all capitalist countries.

Such, briefly, are some of the factors behind the absolute worsening in the condition of the working people in the capitalist countries.

The absolute impoverishment of the proletariat must not be understood as a steady drop in the working people's standard of living everywhere, year after year, day after day. The living standards of certain strata of the working

people may rise in one or several countries, while it is dropping generally in the world capitalist economy as a whole. When describing the condition of the working people in the capitalist countries it must be remembered that the given level of material well-being of the working class is determined by the balance of the class forces of the bourgeoisie and the proletariat. Throughout the history of capitalism, the workers have been waging a persistent struggle for an improvement in their living conditions. This struggle is a factor countering the fall in the standard of living of the working class.

The late 1960s and early 1970s saw an upsurge in the strike struggle of the working people in the capitalist countries. Attempts to reduce the heat of the class struggle by certain social reforms are not successful. The numbers of those participating in strikes rose during the 1970s by more than a third, reaching, according to only official figures, 250 million people. There is a steady rise in the political activity of the working class.

Bourgeois economists attempt to embroider on the truth of capitalism, putting forward a multitude of theories to refute the Marxist-Leninist doctrine of the relative and absolute worsening in the condition of the working masses under capitalism. One such theory is the theory of "people's capitalism".

Those who support the theory of "people's capitalism" declare that, under capitalism, workers' wages grow so fast that the class differences between workers and capitalists are steadily erased. The workers' wages suffice for them to buy cars, houses, shares, and to open deposit accounts in banks; in many enterprises the workers receive a share of the profits. "People's capitalism", its defenders assert, brings a "revolution in incomes", which results in a narrowing of the gap between the way of life of the rich and that of the poor and the material wealth is distributed evenly among the members of society. As a consequence, class antagonism is replaced by equality, and, so they claim, the Marxist-Leninist theory of the class struggle is no longer applicable, for each worker can, if he is industrious and thrifty, become a capitalist. The facts, however, refute these assertions. The advocates of "class peace" and "harmony of the classes" attempt, by means of such absurd theories, to distract the working people from the struggle for their fundamental class interests, to split the organised labour

movement, morally disarm the working class and create among it the illusion that it is possible to eliminate the evils of the capitalist system without any revolutionary struggle.

### The historical trend of capitalist accumulation

Marx made a comprehensive analysis of the accumulation of capital and showed the historical trend of capitalist accumulation. The starting point of the emergence of capitalist property is private property of small commodity producers. During the feudal period petty commodity production began to disintegrate and capitalist elements to appear. But this was a very slow process. It was supplemented by the enforced expropriation of the small producer during the period of the primitive accumulation of capital. As a result of this expropriation, capitalist property became the predominant form of property.

Once they had become consolidated, the capitalist relations of production, based on large-scale private ownership of the means of production by capitalists, facilitated, during the first stage of their development, the rapid development of the productive forces: an increasing technological advance, the combination of the labour of many hundreds and thousands of workers. Production became social in character.

The social character of production intensified even further the operation of the economic laws inherent in capitalism. The basic economic law of capitalism—the law of surplus value—determines the growth of the exploitation of the working class and, on this basis, a step-up in the accumulation of capital. During the process of the accumulation of capital, the organic composition of capital rises and the scale of production increases.

The process of the socialisation of production is accompanied by a constant drop in the number of capitalist tycoons, but huge social wealth is concentrated in their hands, and they appropriate the results of the collective labour of millions of the working people.

The more capitalism develops, the more the social character of the production process conflicts with the private capitalist form of property. Private property becomes an



obstacle to the further development of the productive forces.

The socialisation of labour by capital prepares the objective preconditions for the fall of capitalism. But the operation of the specific laws of capitalism also creates the subjective preconditions for the decline of capitalism. The growth of capital and the scale of production is accompanied by a constant numerical growth of the working class. Owing to the very mechanism of capitalist production itself the working class unites, organises and prepares itself for its role as manager of production in the new, socialist society. During the process of capitalist accumulation, unemployment increases, the condition of the working class deteriorates and, at the same time, its struggle grows in intensity. The working class comes increasingly to understand that the only way to rid itself of exploitation and its lack of rights is the revolutionary destruction of capitalism.

Thus, capitalism itself prepares the objective and subjective conditions for its own abolition. *The essence of the historical trend of capitalist accumulation consists in the preparation of the necessary conditions for expropriation of capitalist private property and for the collapse of capitalism and triumph of socialism.*

Marx wrote: "Along with the constantly diminishing number of the magnates of capital, who usurp and monopolise all advantages of this process of transformation, grows the mass of misery, oppression, slavery, degradation, exploitation; but with this too grows the revolt of the working-class, a class always increasing in numbers, and disciplined, united, organised by the very mechanism of the process of capitalist production itself. The monopoly of capital becomes a fetter upon the mode of production, which has sprung up and flourished along with, and under it. Centralisation of the means of production and socialisation of labour at last reach a point where they become incompatible with their capitalist integument. This integument is burst asunder. The knell of capitalist private property sounds. The expropriators are expropriated."<sup>1</sup>

The inevitability of the collapse of capitalism is confirmed by the entire course of historical development. Thus, in 1917, the working class of Russia, in close alliance with

the poorest peasantry and under the leadership of the Communist Party, headed by V. I. Lenin, carried through the Great October Socialist Revolution. During the revolutionary transformations, the working class of Russia expropriated the bourgeoisie, eliminated private ownership of the means of production and, in its place, established public, socialist ownership of them. This also confirmed new relations of production between the members of society, relations of co-operation and socialist mutual assistance between people free from exploitation.

After the Second World War, the peoples of many other countries set out along the path of fundamental socio-economic transformations and are successfully building socialism today.

#### REVISION EXERCISES

1. What are simple and extended reproduction?
2. What is the organic composition of capital?
3. What is the essence of the capitalist law of surplus population?
4. What are the reasons for the emergence and the forms of unemployment under capitalism?
5. What is the essence of the general law of capitalist accumulation?
6. Explain the relative and absolute worsening in the condition of the working class under capitalism.
7. What is the historical trend of capitalist accumulation?

<sup>1</sup> K. Marx, *Capital*, Vol. I, pp. 714-15.

## Chapter V

# THE CONVERSION OF SURPLUS VALUE INTO PROFIT AND ITS DISTRIBUTION BETWEEN THE VARIOUS GROUPS OF EXPLOITERS

## 1. SPECIFIC FORMS OF CAPITAL

In the preceding chapters we have considered the relations between the proletariat and the industrial bourgeoisie, abstracting from the fact that there are also other groups of exploiters—the commercial bourgeoisie, bankers, agricultural capitalists and big landowners who all participate in exploiting the working people and who divide the surplus value produced by the workers between themselves. The reasons for the division of the bourgeoisie into specific groups must be sought in the conditions of capitalist production itself.

### The movement of capital

Capital is constantly on the move. A halt or slowdown in the movement of capital means a complete loss or drop in the surplus value received by the capitalist.

During its movement, capital goes through a number of stages and takes a variety of forms.

At the first stage, capital functions in the sphere of circulation in the form of money. The capitalist uses this money to buy means of production and labour power, thereby preparing for the process of capitalist production itself. The movement of capital at this stage may be illustrated by the formula:

$$M - C \begin{matrix} \nearrow Lp \\ \searrow Mp \end{matrix}$$

(where  $M$ —money;  $C$ —commodity;  $Lp$ —labour power;  $Mp$ —means of production). Thus, at the first stage, capital is transformed from the money form into the form of productive capital.

During the second stage, capital functions in the sphere of production, where wage workers are united with the means of production. The workers' labour creates new commodities that embody new value, including surplus value. The movement of capital at this stage is expressed by the formula:

$$C \begin{matrix} \nearrow Lp \\ \searrow Mp \end{matrix} \dots P \dots C'$$

Thus, at the second stage, capital is transformed from its productive form into the form of commodity capital.

At the third stage, capital functions once again in the sphere of circulation, where the commodities that have been produced are realised. Commodity capital is transformed into money capital. The movement of capital at this stage is expressed thus:

$$C' - M'$$

Thus, capital begins its movement in the money form and finally returns to this form, but the capitalist receives more money than he initially put into circulation. This movement of capital, i.e., the consecutive transformation of capital from one form to another and its passage through three stages, is called the *circuit of capital*. The circuit of capital breaks down into two stages of circulation and one of production.

### The circuit of capital

#### The circuit of money capital

$$M - C \begin{matrix} \nearrow Lp \\ \searrow Mp \end{matrix} \dots P \dots C' - M'$$

#### The circuit of productive capital

$$P \dots C' - M' - C' \begin{matrix} \nearrow Lp \\ \searrow Mp \end{matrix} \dots P$$



### The circuit of commodity capital

$$C' - M' - C \begin{matrix} \nearrow Lp \\ \searrow Mp \end{matrix} \dots P \dots C''$$

Consequently, capitalist reproduction is the unity of the process of circulation and that of production. Yet, although production and circulation form a unity, the decisive role belongs to production, since it is here that surplus value is created.

### The formation of various types of capital and groups of capitalists

There are three forms of capital corresponding to the three stages in the circuit of industrial capital: money, productive and commodity. As capitalism develops, these three types become increasingly isolated. Commercial and loan capitals separate off from the capital employed in production and begin to function independently in the trade and credit spheres. There are groups of the bourgeoisie corresponding to these separate types of capital: *industrialists, merchants and bankers*.

The function of industrial capitalists consists in directly appropriating the surplus labour of the working class, surplus value. The function of merchant capitalists is to transform commodity capital into money capital. That of loan capitalists is to concentrate and distribute money capitals. Each group of capitalists receives a share of the surplus value created by the working class. In addition to these groups of the bourgeoisie, there are also capitalists in agriculture. It is not relevant here, though, to identify them as a special group, since basically they do not differ from industrial capitalists.

Another group existing within the exploitative class is *landowners*, who occupy a special place in capitalist society, since they own one of the main means of production—the land. They, too, receive a share of the total surplus value created.

The separation of individual parts of social capital into independently functioning capitals—industrial, commercial

and loan, as well as the existence of big landowners, gives rise to fierce competition between the exploiters in appropriating the surplus value. The surplus value appropriated by each capitalist takes the form of *profit*. Industrial capitalists make industrial profit; merchants—commercial profit and bankers—interest on loans. Big landowners receive land rent.

## 2. AVERAGE PROFIT AND THE PRICE OF PRODUCTION

### Production costs and profit. The rate of profit

The value of a commodity produced in a capitalist enterprise breaks down into three parts: (1) *c*—the value of the constant capital (part of the value of the machinery, premises, the value of the raw materials, fuel and other means of production used up during the given production process and transferred to the commodity created); (2) *v*—the value of the variable capital and (3) *m*—surplus value.

Of these three parts, the capitalist pays for only the first two, which constitute his production costs. *Capitalist production costs* consist, consequently, in outlays on constant and variable capital (*c + v*).

When the capitalist sells the commodity produced in his enterprise, surplus value appears as the sum received in excess of the production costs. When determining the profitability of the enterprise, the capitalist compares this excess with the amount of capital spent or advanced, i.e., with the production costs. The ratio of surplus value to total capital is profit. *Profit* is surplus value taken in relation to the total amount of capital invested in production and acts as if it were engendered by this capital. In fact, however, it is surplus value and is engendered only by the variable part of capital. This is why, Marx calls profit a *transmuted form* of surplus value.

The profitability of the capitalist enterprise is measured by the *rate of profit*, which is the ratio of surplus value to the total capital advanced, in percentage terms. For example, if the capital advanced (*c + v*) is 200,000 dollars (160,000 *c* + 40,000 *v*), and surplus value (*m*) for the

year is 40,000 dollars, the rate of profit ( $p'$ ) will be:

$$p' = \frac{m}{c+v} \times 100\% = \frac{40,000}{200,000} \times 100\% = 20\%$$

The rate of profit must be distinguished from the rate of surplus value. In one and the same enterprise, the rate of profit is always below the rate of surplus value. In the given case, the rate of surplus value will be:

$$m' = \frac{m}{v} \times 100\% = \frac{40,000}{40,000} \times 100\% = 100\%$$

The rate of profit is the motive force behind capitalist production. The mid-19th century British trade unionist and journalist T. J. Dunning said aptly concerning the role played by the rate of profit under capitalism:

"With adequate profit, capital is very bold. A certain 10 per cent will ensure its employment anywhere; 20 per cent certain will produce eagerness; 50 per cent, positive audacity; 100 per cent will make it ready to trample on all human laws; 300 per cent, and there is not a crime at which it will scruple, nor a risk it will not run, even to the chance of its owner being hanged."<sup>1</sup>

This description is fully confirmed by the way today's capitalists behave. The wealth and might of the American billionaires—the Morgans, Rockefellers, DuPonts, etc.—were created and are maintained in violation of all human rights and laws.

### The formation of the average rate of profit and the price of production

The capitalist economy consists of a multitude of various enterprises producing all sorts of commodities. Enterprises producing similar products operate under different conditions. They differ in scale, amount of technology available and organisation of production. As a consequence, the individual value of commodities produced in different enterprises also differs. But *intra-sectoral competition*, i.e., competition between capitalists in one and the same industry, results in the prices of commodities being determined not by the individual expenditure of labour on their

production, not their individual values, but by the market (social) value of these commodities.

Since the price of commodities is determined by their market value, an enterprise with sophisticated technology and high labour productivity is in a favourable position. Such enterprises receive extra profit, or superprofit. Under free competition, however, this situation cannot last long. High profits attract everyone. Capitalists who own enterprises with less sophisticated technology strive to update it, introduce technological improvements, and raise the productivity and intensity of their workers' labour. As a result, the value of the commodities in these enterprises falls to the level of the individual value of those produced by advanced enterprises, so this value now becomes the market, or social value. The enterprises that previously received superprofit cease to do so. But new technological improvements once again create the conditions for these or other enterprises to receive superprofit.

In capitalist society, in addition to intra-sectoral competition, there exists *inter-sectoral competition*, i.e., competition between capitalists who have invested their capitals in different industries. This type of competition leads to the rate of profit being equal in the various industries or, the same thing, to equal capitals receiving *equal* profit.

Let us look at how the rate of profit is equalised between capitalists. Suppose there are three industries in society—the leather, textile and engineering industries and that equal capitals are invested in them, but capitals with different organic compositions. If the capital advanced in each of these industries is 100 units (say, billion dollars), let us assume that the capital invested in the leather industry consists of 70 units of constant and 30 units of variable capital; that invested in the textile industry—of 80 units of constant and 20 of variable; that invested in engineering—of 90 and 10 units respectively. The rate of surplus value in each of these industries we shall take as 100 per cent. This means that 30 units of surplus value will be produced in the leather industry, 20 in the textile industry and 10 in engineering. The value of the commodities in the first industry will be 130, in the second—120 and in the third—110, and in all three industries together—360 units.

If we assume that the commodities are sold at value, the rate of profit in the leather industry will be 30 per

<sup>1</sup> Quoted from: K. Marx, *Capital*, Vol. I, p. 712.



cent, in the textile industry—20 per cent and in engineering—10 per cent. This would be profitable for the capitalists in the leather industry, but not for those in engineering. In the pursuit of profit, the latter will transfer their capital from engineering into the leather industry. As a result of the flow of capitals, the leather industry will produce more output than is demanded. The price of leather goods will fall, and so, too, will the rate of profit, say to 20 per cent.

At the same time, production will fall in engineering, while demand remains the same. The changed ratio of supply to demand will allow entrepreneurs to raise their prices for engineering goods. There will be a corresponding rise in the rate of profit, for example, from 10 to 20 per cent.

Thus, the flow of capitals from one industry to another equalises the various rates of profit, making them all correspond to the average rate of profit. *Average profit is profit equal for capitals of equal size invested in various branches of production.* With the formation of the average rate of profit, commodities are no longer sold at value ( $c + v + m$ ), but at a price consisting of production costs and average profit ( $c + v + p$ ). The price equal to the production costs of the commodity, plus average profit, is called the *price of production*.

The equalisation of the various rates of profit to the average and the process of the formation of the price of production can be illustrated by the following table:

Industry	Capital advanced—its organic composition	Rate of surplus value ( $m'$ ) — %	Surplus value ( $m$ )	Rate of profit ( $p$ ) — %	Value of commodity ( $c + v + m$ )	Average rate of profit ( $p'$ ) — %	Price of production $c + v + p'$	Divergence of price of production from value
Leather	$70c + 30v$	100	30	30	130	20	120	—10
Textile	$80c + 20v$	100	20	20	120	20	120	0
Engineering	$90c + 10v$	100	10	10	110	20	120	+10
Total	$240 + 60$	100	60	20	360	20	360	—

As can be seen from the table, the various rates of profits were equalised with the average rate of profit. The price of production diverged from the value of the commodity.

In one industry it was above value; in another it was below it.

In industries with a low organic composition of capital (this is the leather industry in our example), the price of production is below value and profit less than the surplus value in production. In industries with an average organic composition of capital, the price of production coincides with value and profit with surplus value. In industries with a high organic composition of capital (engineering in our example), the price of production is above value and profit higher than surplus value. This excess of the price of production over value was created by the workers in the industries with a low organic composition of capital, but it is appropriated by the capitalists in those with a high organic composition of capital.

Consequently, the workers are exploited not only by the capitalists for whom they actually work, but also by the entire capitalist class. The whole class has a vested interest in raising the degree of exploitation of the workers, since this leads to a higher average rate of profit. This is why the capitalists form a united front in their class struggle against the proletariat. The working class, exploited by all the capitalists, must also show class solidarity and act in a united front. A partial struggle for the interests of workers, a struggle against individual capitalists, cannot bring any fundamental change in the condition of the working class. The working class can only throw off the yoke of capital if it abolishes the system of capitalist exploitation. This conclusion is what constitutes the tremendous political significance of Marx's theory of average profit for the class struggle of the proletariat.

As we have seen, under capitalism commodities are sold not at their value, but at the price of production. This does not mean, however, that the law of value is violated. The price of production is a transmuted form of value. Some capitalists sell their commodities at prices above value, others at ones below it, but, taken together, all capitalists receive the full value of commodities and the profit of the entire class of capitalists coincides with the total mass of surplus value produced in society. On the scale of all society, the sum of the prices of production is equal to the sum of the value of commodities, and the mass of profit to the mass of surplus value. Thus, the *law of value operates through the prices of production*.

## The tendency of the rate of profit to fall

As capitalism develops, the organic composition of capital rises. This means that there is an increase in the amount of raw material, the number of machines and amount of equipment in enterprises. The number of workers also rises, but more slowly, so variable capital grows more slowly than constant capital does. Yet the higher the organic composition of capital, the lower the rate of profit. This does not, however, imply that the mass of profit also falls. Here is an example. Social capital of 100 billion dollars, consisting of  $70c + 30v$ , doubles in 20 years to reach 200 billion dollars. Its organic composition has also risen to  $160c + 40v$ . Given a 100 per cent rate of surplus value, in the first instance the mass of profit is 30 billion dollars, in the second—40 billion dollars. At the same time, the rate of profit has dropped from 30 to 20 per cent. A drop in the rate of profit is as inevitable as a rise in the organic composition of capital. At the same time, there are a number of factors working against this drop.

The main factor counteracting the drop in the rate of profit is the *rise in the degree of exploitation of the workers*. Let us return to our example. Assume that the degree of exploitation in the second instance has risen to 200 per cent. Profits will now be 80 billion dollars, while the rate of profit will be  $\frac{80}{160+40} \times 100\% = 40\%$ . Thus, an intensification of the exploitation of the working class leads to an increase in the rate of profit.

There are also other factors counteracting the fall in the rate of profit: a *drop in workers' wages below the value of their labour power, economies of constant capital at the expense of the workers' health and lives, and so on*.

All these factors only diminish the fall in the rate of profit, giving it the nature of a *tendency*; they do not eliminate it altogether.

The tendency of the rate of profit to fall exacerbates capitalist contradictions to the extreme. The contradiction between the proletariat and the bourgeoisie intensifies, for in an attempt to slow down the drop in the rate of profit, the bourgeoisie steps up the exploitation of the working

class. The contradictions within the capitalist camp also intensify. The capitalists strive to transfer their capitals to industries with a higher rate of profit. This leads to very fierce competition between capitalists and, eventually, to the ruin of some and enrichment of others. The contradictions between capitalist powers also grow. In the pursuit of the maximum rate of profit, capitals from the major developed states race both into the economically backward countries (where labour power is cheaper and the organic composition of capital lower) and into other countries, including developed ones under certain conditions.

By exacerbating capitalist contradictions, the law of the tendency of the rate of profit to fall demonstrates the historically limited and transient character of the capitalist mode of production.

## 3. COMMERCIAL PROFIT

### Industrial and commercial capital

Surplus value is created in the process of production by the labour of the working class. It is appropriated primarily by industrial capitalists, who own enterprises. It is from these that all the other groups of the exploitative class, including merchant capitalists, receive surplus value. Why does the industrial capitalist hand over part of the surplus value to the merchant? In the capitalist economy, commodities are produced for sale, so, in addition to being produced, the commodity has to be sold. As a rule, the industrial capitalist sells his commodity to the merchant, who is responsible for the further movement of the commodity towards the consumer.

The function of commercial capital consists in transforming commodity capital into money capital. If it were not for the merchant capitalist, the industrialist would have to have additional capital for equipping trading premises, hiring trade personnel, etc. But the industrial capitalist entrusts this to the merchant, who, being in touch with the demand on the market, can realise the commodity faster. Commercial capital is, on the scale of society, additional capital that is isolated from industrial capital and counterposes it in the form of the capital of merchant capital-



ists, who receive part of the profit. The profit received by merchants is called commercial profit.

### The source of commercial profit

*Commercial profit* is the part of surplus value handed over by the manufacturer to the merchant for marketing his commodities. Industrial capitalists sell commodities to merchants at prices below the prices of production, while the merchants realise them at the prices of production. The commercial capitalists appropriate the difference and so, equally with industrialists, receive average profit on their capital. If the profit of the commercial capitalist were lower than average, trading would be an unprofitable business and the merchant would transfer his capital to industry. Both industrialists and merchants receive average profits. This does not mean, however, that they receive an equal mass of profit. The industrial capitalist, who spends considerably more capital on production than the merchant does on realising commodities, will also receive a greater mass of profit. But for equal shares of capital spent, their profits will be the same.

When it takes the form of commercial profit, surplus value is disguised even more. The capital of the merchant does not participate in production and the impression is created that profit arises from trading itself.

### Costs of circulation

The realisation of commodities requires certain outlays. These are called the *costs of circulation*.

There are two types of capitalist circulation costs: net or real costs and additional costs. *Net costs of circulation* are directly connected with the sale and purchase of commodities. They include outlays on turning commodities into money and vice versa: the greater part of the expenditure on paying for the labour of workers in trade, on maintaining trading companies, on advertising, and outlays arising from competition and speculation. Net costs of circulation add no value to the commodity and are covered by the capitalists out of the part of surplus value received

from industrial capitalists. Most of the costs of circulation of capitalist trade are net costs.

*Additional costs of circulation* are connected with the continuation of the production process in the sphere of circulation. They include expenditure, necessary for society and independent of the specifics of the capitalist economy: on storing, finishing, transporting and packaging goods. Only once it has been delivered to the consumer can a product be consumed. The labour spent on finishing, transporting and packaging goods adds new value to that of the commodities, so these costs of circulation in no way differ from costs of production.

Under capitalism the costs of circulation are constantly rising, especially the net costs, above all those connected with advertising. The costs of circulation in the capitalist countries constitute roughly a third of the sum total of retail turnover and are a heavy burden for the working people.

### The forms of capitalist trade.

#### Foreign trade

In the modern capitalist economy there are two main forms of home trade—*wholesale and retail*. Wholesale trade is between capitalists (industrialists and merchants). Retail trade is the sale of commodities directly to the population.

Of major importance in wholesale trade are *wholesale markets*, where trade takes place on the basis of samples, where supply and demand for commodities on the scale of the country are concentrated, and often on that of the whole capitalist world.

*Foreign trade*, i.e., the trade between countries, consists of exports and imports. The price ratio of exports to imports constitutes the balance of trade, which may be active or passive. If a country exports more than it imports, the balance of trade is active; if it imports more than it exports, it is passive.

The marketing of commodities on the foreign market allows capitalists to expand their production and thus increase their profits. Particularly profitable for the capitalists in the industrially developed countries is trade with the economically less developed countries. This is because con-

sumer goods are sold to these countries at relatively higher prices than those at which raw materials are purchased from them. Foreign trade is one of the ways in which the developed bourgeois countries fetter the economically backward ones.

#### 4. LOAN CAPITAL. JOINT-STOCK COMPANIES

##### Loan capital and interest

During the circuit of capital, not only commercial capital, but also money capital, taking the form of loan capital, is separated out. Where does the spare money capital come from? If, for example, an industrialist sells his finished product monthly, and buys raw materials once every six months, for five months he has idle money on his hands. If the capitalist accumulates money for replacing worn-out parts of fixed capital (so-called depreciation funds), again temporarily idle sums of money will accumulate. These sums will be spent on purchasing new equipment only after several years.

At other times the capitalist needs money, for instance, if he did not manage to sell his output before needing to purchase more raw material.

Consequently, at any one time, some capitalists will have a temporary excess of money capital, while others will be in need of it. The capitalists with the idle money loan it out, i.e., give it to other capitalists for their temporary use. *Loan capital is money capital loaned out for a specific period of time for recompense, called interest.*

*Interest* is the part of profit that the industrial or merchant capitalist gives to the loaning capitalist for the loan granted to him. The industrial or merchant capitalist uses the money he receives to invest in production or trade. Consequently, a distinguishing feature of loan capital is that it is not used by the capitalist to whom it belongs. The industrialist uses loan capital in production to hire workers, and derive surplus value. Part of this surplus value he pays the loaning capitalist in the form of interest. Thus, the interest on loans is one form of surplus value.

For example, if the industrial capitalist is granted a loan of 100,000 dollars, given an average rate of profit of 20 per cent, the mass of profit on this capital will be 20,000 dollars. Out of this profit, the industrial capitalist pays the loaning capitalist interest. The *rate of interest* is the ratio of the sum of the interest to the capital loaned. If the level of loan interest, or the rate of interest, is three, 3,000 dollars out of the 20,000 dollars profit will be paid as interest on the capital of 100,000 dollars. The remaining 17,000 dollars profit is appropriated by the industrial capitalist. This part of profit is called *profit of enterprise*.

The proportions into which average profit is divided between interest and profit of enterprise depends on the ratio of supply and demand in regard to loan capital. The higher the demand for money capital, the higher the rate of interest, and, on the contrary, the lower the demand for money capital, the lower the rate of interest. Since interest is merely part of average profit, the rate of interest cannot exceed the average rate of profit.

With the development of capitalism, the *rate of interest shows a tendency to fall*. This is because, first, the average rate of profit tends to fall and, second, as capitalism develops, the total mass of loan capital greatly increases. More capital is offered than is required. These factors are also responsible for the drop in the level of loan interest.

##### Capitalist credit. Banks and banker's profit

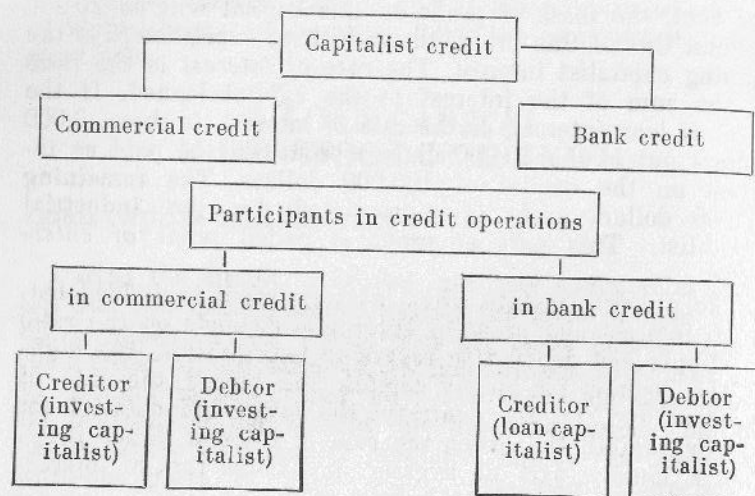
The movement of loan capital takes place in the form of credit. There are two types of capitalist credit: commercial and bank credit.

*Commercial credit* is used when industrial and merchant capitalists sell one another commodities on credit in exchange for a promissory note (bill) obliging the purchaser to pay a certain sum of money by a particular date.

*Bank credit* is credit granted by loaning capitalists (bankers) to industrialists and merchants. Bank credit is granted out of the temporarily idle money capital deposited in banks.



### Forms of capitalist credit



Under capitalism, a *bank* is a capitalist concern acting as go-between for creditors and debtors. Bank operations consist in accumulating idle money capitals and incomes, and putting them at the disposal of investing capitalists, as well as the bourgeois state. In addition, bankers invest capital directly in industrial and trading enterprises, thereby becoming investing capitalists themselves.

The purpose of bank operations, as of those of other capitalist enterprises, is to make a profit. The source of banker's profit is surplus value created in production. *Banker's profit* is the difference between the interest charged by the bank on the loans it grants and the interest it pays on deposits. *Deposits* are the temporarily idle sums of money placed in banks by capitalists, merchants, landowners and other strata of the population. The bank pays a lower rate of interest than it charges for loans, and appropriates the difference. The banker uses this difference to cover the expenditure involved in fulfilling banking operations, while the remainder constitutes the banker's profit. Capitalist competition spontaneously brings this profit to the level of the average rate of profit on the bank's own capital. The greater part of a bank's capital is received through deposits.

In addition to acting as go-between in credit operations, banks also settle accounts between capitalists and carry out a wide variety of monetary operations. Consequently, the bank fulfils the role of cashier for many capitalists.

Under capitalism banks are a special system for the spontaneous distribution of money resources between sectors of the economy. But this distribution of resources takes place in the interests of the capitalists, rather than of society. Capitalist credit, which closely links the various sectors of the economy, promotes the further growth of the socialisation of labour. But the socialisation of labour proceeds on the basis of private ownership of the means of production. As a result, the development of credit further exacerbates the contradictions of the capitalist mode of production and intensifies the anarchy within it.

### Joint-stock companies

At the dawn of capitalism, factories and plants were founded by individual entrepreneurs. Later on, however, such huge construction projects as railways, docks, iron-and-steel works, motor works, etc., required more capital than the individual capitalist had at his disposal. Joint-stock companies began to be set up, and they became widespread in the second half of the 19th century in industry, railway construction and banking. A *joint-stock company* is a form of undertaking whose capital consists of contributions made by its participants, each of whom holds a certain number of shares corresponding to the amount of capital he invested. A *share* is a security certifying the investment of a certain amount of money in the joint-stock company. The owner of a share has the right to receive part of the profits of the undertaking. The income paid out on shares is called a *dividend*. Shares are bought and sold on stock exchanges for particular prices, called the *share quotation*. The *stock exchange* is a market for securities, especially shares, and it is here that they are bought and sold, and their quotations set.

The quotation price of shares depends on two factors: the level of interest banks pay on deposits and the annual income brought in by each share (the dividend). If a 100-dollar share brings an income of 10 dollars a year, it will be sold for that sum of money which, if invested in a bank,

would bring in the same 10 dollars annually in the form of interest. Let us assume that the bank pays 5 per cent annual interest on deposits; in this case the share will be sold for 200 dollars since, if this sum were deposited in the bank, the owner would receive 10 dollars a year in the form of interest.

A general meeting of the shareholders votes in a managerial board and appoints officials to organise and run the activities of the joint-stock company. The number of votes at the general meeting depends on the number of shares. Since most shares are, as a rule, held by a small number of big capitalists, they are the virtual owners of the joint-stock company. Practice has shown that it is not even necessary to hold half the shares to be the full master of a joint-stock company. The number of shares held by an individual or a group of interconnected people and allowing them full control over the joint-stock company is called the *controlling block of shares*.

Capital that exists in the form of securities (shares, bonds) and brings its owners an income is called *fictitious capital*, because securities have no value in themselves. They merely indirectly reflect the movement of actual capital.

The wide spread of joint-stock companies turns capitalists increasingly into recipients of interest and dividends, while the management of production is in the hands of hired managers and directors. Thus, capitalist ownership becomes even more parasitical.

Shares are held by all strata of the population. This is to the capitalists' benefit: the more shareholders there are, the more capital is in the hands of the leading people in joint-stock companies. The fact that individual groups of working people acquired shares provided bourgeois ideologists with the justification for their theory of the "democratisation of capital". This false theory asserts that, as a result of the development of the share form of undertaking, the nature of capitalism has changed and that the worker who buys a share supposedly becomes a joint owner of the joint-stock company and can participate in its management. In fact, however, joint-stock companies are fully at the disposal of the big capitalists who hold the controlling block of shares. Big capitalists also enjoy all the advantages of share capital. The working people, who hold a negligible proportion of the shares, do not play,

nor can they, any role in the management of the joint-stock company.

We have already looked at how surplus value is transformed into profit and how it is derived by industrialists, merchants and bankers. But under capitalism there is another exploitative class—big landowners. They also receive a share of the surplus value. This part of surplus value takes the form of the capitalist land rent.

## 5. LAND RENT AND AGRARIAN RELATIONS UNDER CAPITALISM

### Capitalist land rent

Where does land rent come from, who creates it and how does it get to the landowner? In answering these questions, Marxism-Leninism proceeds from the existence of *capitalist agriculture*, which is run by means of the exploitation of wage labour. It is also assumed that the landowner and the capitalist are different people.

The owner of land does not himself do any farming. He rents out the land to a capitalist entrepreneur who has decided to invest his capital in agricultural production. The capitalist hires agricultural labourers who, in the process of production, create surplus value. This surplus value falls first of all into the hands of the tenant capitalist and is divided into two parts: his profit, equal to the average profit on invested capital and an excess above average profit, which is appropriated by the landowner. This part of surplus value constitutes *capitalist land rent*. Why does the landowner appropriate part of the surplus value created by the workers hired by the tenant capitalist? Merely on the basis that he is the owner of the land and, without his permission, no one would have the right to farm it. This is why it is said that land rent is an economic form of the realisation of private ownership of the land. If, however, the capitalist is the landowner, he appropriates the entire surplus value created by the agricultural labourers.

Land rent under capitalism differs from feudal land rent. Under feudalism, land rent in all its forms (labour, kind, money) expressed the feudal relations of production between the two main classes—the landowners and serfs.



Under capitalism, land rent expresses the relations between three classes—landowners, tenant capitalists and hired agricultural labourers. Under feudalism, land rent accounted for the entire surplus product created by the peasants. Under capitalism, surplus value is divided between two exploiting classes—tenant capitalists and landowners.

There are two types of rent: *differential and absolute*. The existence of these two types is connected, as Lenin shows, with the dual nature of monopoly: monopoly of the land as an economic object, which engenders differential rent, and monopoly of private ownership of the land, which engenders absolute rent.

### Differential rent

In industry, the value of a commodity and the price of production are determined by the average conditions of production, in farming, the price of production of agricultural produce is determined not by the average conditions of production, but by the conditions of production on the poorest land. Since the area of land available is limited and cannot be increased indefinitely, those capitalists who have rented the best and average plots of land are in a more favourable position than those who have rented the poorest. This monopoly of different plots of land rented by capitalists for farming engenders different incomes. *Differential rent is the excess of surplus value over the average profit received from farming under the more favourable conditions.* But it is not the land itself that is the source of rent. The labour applied to the best land is more productive and provides additional profit.

There are three factors making it possible to obtain differential rent: (1) differences in the fertility of individual plots of land; (2) differences in the location of plots of land in relation to the market; (3) differences in the productivity of additional capital invested in the land.

Marx calls differential rent connected with differences in the fertility and location of plots of land *differential rent I*.

Let us take, as an example, three plots of land of equal size, but differing in natural fertility. On each plot the tenant capitalist spends 100 dollars on hiring workers, buying seed and equipment, etc. Since, however, the plots vary in fertility, the grain harvests will also differ: four

centners of farm I, five on farm II and six on farm III.

Assuming that the average rate of profit is 20 per cent, the price of production of all grain (costs of production plus average profit) on each farm will be 120 dollars. But what is the individual price of production of one centner of grain? On farm I, a centner of grain will cost 30 dollars (120:4), on farm II—24 (120:5) and on farm III—20 dollars (120:6).

On the market, however, the price of grain is set at the price on the poorest plot, i.e., 30 dollars a centner, otherwise, if the price was set at 24 dollars (the price on the average plot), the tenant capitalist farming the poorest plot would receive only 96 dollars ( $4 \times 24$ ), i.e., he would not even cover his costs, to say nothing of making no profit. The capitalist farming the poorest plot of land would then leave farming for he cannot transfer to a better plot, since all of them are already occupied by other tenant capitalists. The halt to farming on the poorest plots would mean a drop in the total grain yield. The prices of grain would then begin to rise and when they reached 30 dollars a centner, it would once more be worthwhile to farm the poorest plots of land.

Thus, the tenant capitalist on farm I sells his harvest for 120 dollars, that on farm II for 150 dollars and that on farm III for 180 dollars. The additional surplus value received on farm II over and above the individual price of production is 30 dollars and on farm III is 60 dollars. This is differential rent I.

In tabular form, our example appears as follows:

Farm	Capital expenditure (dollars)	Average profit (dollars)	Output (centners)	Individual price of production (dollars)		Total price of production (dollars)		Differential rent I (dollars)
				total output	per centner	per centner	total output	
I	100	20	4	120	30	30	120	—
II	100	20	5	120	24	30	150	30
III	100	20	6	120	20	30	180	60

Consequently, differential rent is the additional surplus value over and above average profit, created by the labour of hired agricultural labourers. The labour of the workers on plots differing in fertility is of differing productivity, so it creates different amounts of surplus value.

The origins of differential rent I are also connected with the location of the plots of land. Here it is the distance from big towns, waterways or railways that plays a part. Farms located close to retail outlets save a considerable part of labour and means on the transportation of output compared with those located further from these points. By selling their produce at the same price as the tenant farmers from further away, they receive additional surplus value.

Differential rent also arises when additional capital is invested in the land (in the form of artificial fertilisers, land improvement work, more sophisticated machinery, and so on). The additional profit received as a result of intensive cultivation is called *differential rent II*.

Apart from differential rents I and II, the landowner also appropriates absolute rent.

### Absolute rent. Price of land

Under capitalism, the land is the private property of individuals, so, in order to invest capital in agriculture, the consent of the landowner is required. The monopoly of private ownership of the land excludes any free flow of capitals from industry into agriculture. As a result, in agriculture the organic composition of capital is lower than in industry. This means that, for equal capital invested, more surplus value is created in agriculture than in industry. If there were free movement of capital from industry into agriculture, the additional surplus value created in agriculture thanks to the lower organic composition of capital would be distributed between industry and agriculture. But private ownership of the land prevents it from being redistributed among the capitalists. Landowners appropriate this extra surplus value taking it from the capitalists who have invested their capital in agriculture.

Capitalists cannot organise agricultural production unless they pay the landowner for the use of his land. The sum taken by the landowner as the private owner of the land is called absolute rent.

Let us take a look at the process by which absolute rent is formed, using the following example. Assume that the organic composition of capital in industry is 4:1, and that all capital consists of  $80c + 20v$ . Given a rate of surplus

value equal to 100 per cent, 20 units of surplus value will be produced. The value of all output is equal to 120 units. The organic composition of capital in agriculture is lower than in industry and is, for instance,  $60c + 40v$ , i.e., 1.5:1. Given a 100 per cent rate of surplus value, 40 units of agricultural produce will be equal to 140 units. The tenant capitalist, like the industrial capitalist, receives average profit equal to 20, so the price of production of agricultural produce (costs of production plus average profit) will be  $120(100 + 20)$ , while the value of this product, at which it is sold, is 140. The difference between the value and price of production of agricultural produce (in our example  $140 - 120 = 20$ ) constitutes absolute rent, which is appropriated by the landowner. Thus, *absolute rent* consists of the excess of the value of agricultural produce over the social price of production. If there were no private ownership of the land, this excess of value over the social price of production would be redistributed between all capitalists. As a result, average profit would rise. But private ownership of the land hampers the flow of capital from industry into farming, so agricultural produce is sold not at the price of production, but at the value of the output produced on the poorest land, the excess being appropriated by the landowner in the form of absolute rent.

Consequently, the monopoly of the private ownership of the land is the reason for the existence of absolute rent paid on each plot of land, regardless of its fertility and location.

The land is a gift of nature and has no intrinsic value, but under capitalism it is bought and sold, i.e., it becomes a commodity. How is the price of land determined?

The price of a plot of land depends on two factors: the annual income it brings in (rent) and the rate of loan interests. If the landowner receives 10,000 dollars rent a year from his land, he will sell it for that sum of money which, if deposited in a bank, would bring him the same income. Let us assume that the bank pays 4 per cent interest on deposits. The landowner will then sell his land for 250,000 dollars, because if this sum is deposited in the bank it will bring in an annual income of 10,000 dollars in the form of interest (at 4 per cent interest). Consequently, the *price of land is capitalised rent*, i.e., rent transformed into capital and bringing in an income in the



form of interest. As capitalism develops, the price of land rises owing to the increase in rent and drop in the rate of loan interest.

### Specifics of the development of capitalism in agriculture

The development of capitalism in agriculture is subject to the same economic laws as in industry. At the same time, depending on the specific historical circumstances, the development of capitalism in agriculture proceeded differently. There were, however, two most typical development paths.

The *first* consisted in landed estates being retained and, through gradual changes, transformed into capitalist ones. This is the course that the development of capitalism took, for example, in the agriculture of Germany, tsarist Russia and Italy.

The *second* path consists in the landed estates being eliminated by a revolution, the landowners' land being confiscated and sold to the peasants. Small farms emerge on which capitalist production rapidly develops. This is how capitalism developed in agriculture in the USA.

However capitalism developed in agriculture, ownership of the land always becomes concentrated in the hands of the big bourgeoisie and, on this basis, a concentration of production takes place. The concentration of production leads to small peasant farms being ousted by big capitalist ones, because large-scale production enjoys a number of decisive advantages over small. Large-scale production makes it possible to use agricultural machinery on a broad scale. On large farms, the productivity of labour is higher than on small ones. Major advantages of large-scale production are specialisation in some particular sphere (farming or livestock breeding) and a high marketability. Small production cannot compete with large-scale production, and goes out of business.

In industry, the triumph of large-scale production over small is indisputable. As for agriculture, however, bourgeois economists represent it as some vague state of rural bliss and put forward a false theory concerning the "stability of small peasant farming". In fact, however, small peasant farming is not stable at all, and keeps afloat only

at the cost of unbelievable deprivation and exhaustive labour by the peasant and his family.

Capitalism develops further in agriculture and intensifies the counterposition of town and village. The economic basis of this is exploitation of the peasantry by the urban bourgeoisie, ruin of the majority of the rural population during the development of industry, trade, credit and tax systems. The countryside falls further and further behind the town in economic, political and cultural terms.

The difficult living conditions of the peasants make them realise the need to eliminate the capitalist system. As a result, the fundamental interests of the main mass of the peasantry coincide with those of the proletariat. Here lies the *economic basis of the alliance of the proletariat with the toiling peasantry* in their common struggle against capitalism.

### Nationalisation of the land and land rent

A major reason for agriculture falling behind industry is private ownership of the land.

Private landed property, as we have already seen, hampers the free flow of capitals from industry into agriculture. It prevents the tenant capitalist from investing additional capital in agriculture (the application of fertilisers, the construction of irrigation installations and so on), since all the benefits from this will, once the land lease expires, go to the landowner. Private ownership of the land engenders absolute rent, which goes into the pockets of landowners, who lead a parasitic way of life. This shows that private ownership is an obstacle to the development of the productive forces of capitalism, so the elimination of private ownership of the land becomes essential. One way in which this is achieved is *nationalisation of the land*, i.e., the land is made state property.

At the dawn of capitalism, individual members of the bourgeoisie came out for nationalisation of the land. They proposed abolishing private ownership of the land (at the time it was mainly feudal ownership) and handing it over to the bourgeois state. What would the consequences of this measure be if capitalism were retained? If the state took over the land, absolute rent would cease to exist, since it is engendered by private ownership of the land.

Although nationalisation of the land by bourgeois states

would speed up the development of capitalism and its productive forces, the bourgeoisie is not, in practice, capable of implementing this. *First*, the abolition of private ownership of the land would shake the foundations of private ownership in general, including capitalist. *Second*, as capitalism developed, the bourgeoisie itself acquired land, so the interests of the bourgeoisie and landowners became increasingly intertwined.

The abolition of private ownership of the land during the age of developed capitalism can only be carried out by a class that fights for the abolition of private property in general. This is the revolutionary proletariat. But proletarian nationalisation of the land does not open the way for the development of capitalism; on the contrary, it is the beginning of the end for capitalism.

Nationalisation of the land in Russia after the October Revolution eliminated private ownership of the land and, thus, absolute rent, too. This measure was one of the most important conditions for the growth of the socialist form of large-scale farming.

Above we have considered the special forms taken by surplus value in the process of the movement of capital. We have discovered that the only source of income for all groups of bourgeoisie and landowners is the labour of wage workers creating surplus value. These same specific forms taken by surplus value conceal and mask the main class contradiction of capitalist society—that between the bourgeoisie and the proletariat. By analysing the process of the production of surplus value, the accumulation of capital and the impoverishment of the proletariat, and also the process of the distribution of surplus value, Marx considered comprehensively the main class contradiction of capitalism, the contradiction between the bourgeoisie and the proletariat. The historical task of the working class consists in resolving this irreconcilable contradiction, i.e., in eliminating the capitalist mode of production and exploitation once and for all.

#### REVISION EXERCISES:

1. What are the stages that capital passes through in its movement?
2. What are capitalist production costs, profit and the rate of profit?

3. How are the average rate of profit and the price of production formed?
4. Describe the law of the tendency of the rate of profit to fall.
5. What are commercial capital and commercial profit?
6. What types of costs of circulation exist under capitalism and what is their essence?
7. What are loan capital, interest and profit of enterprise?
8. What is a joint-stock company?
9. What is the essence of capitalist land rent?
10. How are differential rent I and II formed?
11. How is absolute rent formed?
12. What are the chief courses of development of capitalism in agriculture?



## Chapter VI

# THE REPRODUCTION OF SOCIAL CAPITAL AND ECONOMIC CRISES

The capitalist economy consists of a multitude of individual, independent undertakings. Each capitalist produces the goods that bring him most profit at the given moment. As a result, capitalism develops in an unplanned, anarchical way. The anarchy of production in capitalist society creates difficulties in marketing commodities and leads to economic crises of overproduction.

Economic crises entail incalculable difficulties for the working people and exacerbate the contradictions of capitalism tremendously. They are a threatening reminder to capitalism of its inevitable downfall.

Let us look at the mechanism of the capitalist reproduction of social capital as a whole.

## 1. REPRODUCTION OF SOCIAL CAPITAL

### Individual and social capital

Under capitalism, social production is not an integrated whole, but broken up between individual and public capitalist undertakings, each being private or state capitalist property and an independent production unit in relation to other undertakings. At the same time, reproduction in each individual undertaking depends on reproduction in all the others. Thus, reproduction in a motor works depends on other capitalists producing various machine-tools, instru-

ments, auxiliary materials, fuel, consumer goods for the workers, and so on. The actions of individual capitalists and, consequently, the movement of individual capitals interact.

The totality of individual capitals in their interdependence and interconnections constitute *social capital* as a whole. It is here that reproduction takes place under capitalism, in this intertwining of the movements of individual, independent capitals which, at the same time, constitute parts of the total social capital. In order for reproduction to take place, not only the individual capitalist, but also all capitalists in society must be able, on the market, to realise the commodities they produce in their factories and plants and to buy the goods they need. In order to explain how the reproduction of all social capital takes place, let us look at the composition of the aggregate social product.

### The aggregate social product

The *aggregate social product* is the total mass of material wealth (machinery and machine-tools, fuel, grain, clothing, etc.) produced in society during a certain period, say a year.

Looking at the aggregate social product in value terms, it consists of: (1) the value replacing the constant capital used up, i.e., covering wear and tear on equipment, the value of raw and other materials, etc.; (2) the value replacing variable capital, i.e., the value of labour power; and (3) surplus value. In other words, the value of the aggregate social product is  $c + v + m$  (constant capital, plus variable capital, plus surplus value).

The individual parts of the aggregate social product play different roles in reproduction. Constant capital must continue to serve the production process. Variable capital is transformed into wages, which the workers spend on satisfying their requirements, i.e., on reproducing labour power. Under simple reproduction, all surplus value is used by the capitalists to satisfy their own personal requirements. Under extended reproduction, part of it is consumed by the capitalists, while the remainder, usually the larger part, is used to purchase additional means of production and hire additional labour power.

Also of major significance in an analysis of the reproduction and circulation of all social capital is the physical form of the aggregate social product.

In *physical terms*, the aggregate social product consists of the *means of production and consumer goods*. Correspondingly, social production as a whole breaks down into two divisions: *Department I*—production of means of production, and *Department II*—production of consumer goods. The different physical parts of the aggregate social product play different roles in reproduction: means of production provide for continued production, while means of consumption satisfy people's personal requirements.

### The essence of the problem of realisation

The reproduction of social capital presupposes that each individual capital and, consequently, all social capital must gradually complete its circuit, i.e., transfer from the money to the productive form, from the productive to the commodity form, and from the commodity back to the money form, etc. This circuit can only take place if all capitalists and each one individually can realise, i.e., sell their output. The process of realisation consists in each part of the annual social product, in both value and physical terms, fulfilling its function in the process of production and being fully realised.

What conditions are necessary for the entire product manufactured in the course of the year to be realised? The Marxist-Leninist theory of reproduction clarifies these conditions and shows that, during the development of capitalist production, these conditions are inevitably and constantly violated, this leading to economic crises of overproduction.

### The conditions for realisation under simple capitalist reproduction

Under simple reproduction, the production process is repeated on the same scale as before, and the entire surplus value goes for the personal consumption of capitalists.

We shall now consider the realisation of the entire social product under simple reproduction. Let us assume

that the value of the constant capital expressed, for instance, in millions of dollars, is 4,000 in Department I and that of variable capital—1,000, while surplus value is also 1,000. In Department II let the value of constant capital be 2,000, of variable capital—500 and of surplus value—500. Consequently, the aggregate social product will consist of the following parts:

Department I:  $4,000c + 1,000v + 1,000m = 6,000$ ;

Department II:  $2,000c + 500v + 500m = 3,000$ .

In Department I, the value of the total product, 6,000, exists at the end of the year in the form of machines, raw materials, and so on. Meanwhile, for the production process to be continued, the workers and capitalists of this Department need not only means of production, but also consumer goods. The output of Department I must be realised (sold). How does this take place?

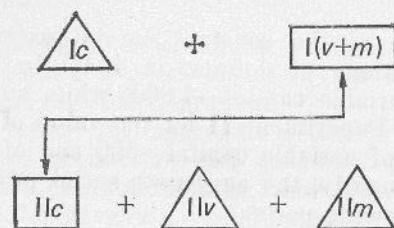
The part of Department I's output equal to  $4,000c$  will be sold to undertakings in the same Department to replace the constant capital used up. The remaining part of the output of Department I ( $1,000v + 1,000m$ ) is sold in the form of means of production to undertakings producing consumer goods. These means of production, to a sum of 2,000, serve to replace the constant capital in Department II.

In Department II, the value of the total product existing in the form of consumer goods (clothing, footwear, foodstuffs, etc.) is 3,000. Consumer goods worth 2,000 produced in Department II are exchanged for means of production produced in Department I. The remainder of the output of Department II, also consisting of consumer goods, and constituting the reproduced value of variable capital ( $500v$ ) and newly created surplus value ( $500m$ ), is sold to the workers and capitalists of this Department.

Thus, the entire social product is realised. The chief condition for realisation under simple capitalist reproduction is the following equation: the *sum of the variable capital and surplus value of Department I must be equal to the constant capital in Department II*.

Let us explain this schematically. If those parts of the product that are realised within the Department are signified by a triangles, and those parts that are exchanged in the other Department by rectangles, all interconnected by lines, we get the following scheme:





This illustrates the chief condition for realisation under simple capitalist reproduction:  $I(v+m) = IIc$ , from which two more conditions arise:  $I(c+v+m) = Ic + IIc$ ;  $II(c+v+m) = I(v+m) + II(v+m)$ .

#### The conditions for realisation under extended capitalist reproduction

Characteristic of capitalism is *extended reproduction*, or accumulation. In order for production to be increased, either existing undertakings must be expanded or new ones built. In both cases, a certain quantity of new means of production will have to be set in motion. And, since the means of production are produced by Department I, the part of Department I output that constitutes newly created value  $I(v+m)$  must be greater than the constant capital of Department II ( $IIc$ ). Only on this condition will there appear a surplus of means of production that can be used to expand production in both Departments. For example:

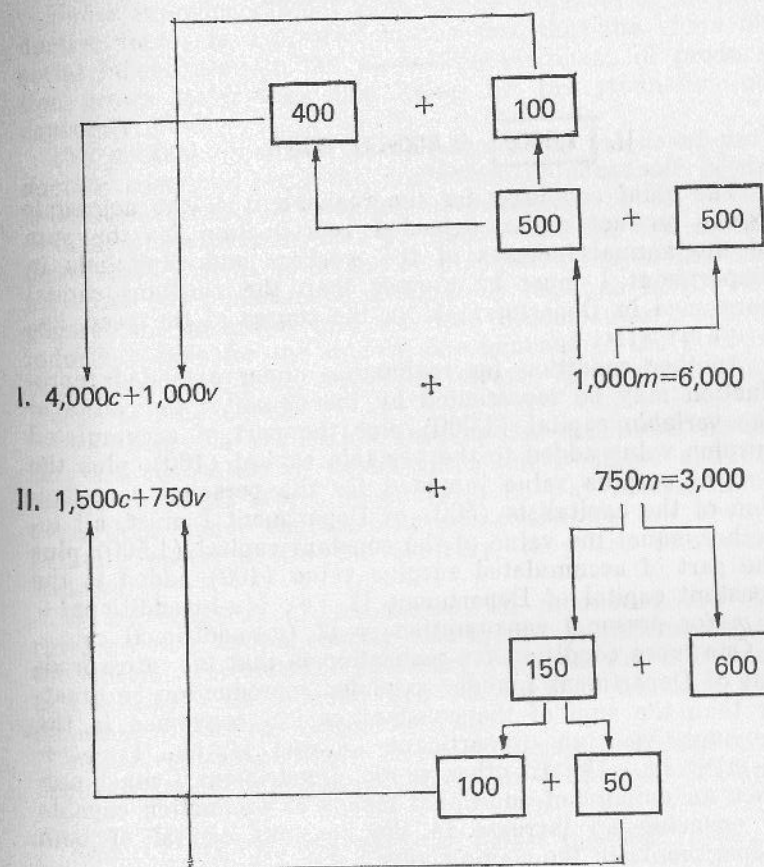
Department I:  $4,000c + 1,000v + 1,000m = 6,000$ ;

Department II:  $1,500c + 750v + 750m = 3,000$ .

Under extended reproduction, the surplus value in each Department breaks down into two parts: that personally consumed by capitalists and that accumulated. The latter is spent on acquiring additional means of production and hiring additional labour power.

Suppose, the capitalists of Department I accumulate half their surplus value, i.e., 500. This means they must add 400 to constant capital and 100 to variable, i.e., spend the accumulated part of surplus value in the same proportion as the capital initially advanced. So the value composition of Department I as it must produce during the next year will be  $4,400c + 1,100v$ . Out of the total product of Department I (6,000), 4,400 is realised in this Department. The remaining 1,600 must be exchanged for the products of De-

partment II. But however, for the capitalists of Department II to be able to purchase means of production to the sum of 1,600 (to replace the 1,500 they spent in the preceding year), they must increase their constant capital by 100 out of the surplus value of Department II. These 100 units of surplus value, used to expand the constant capital of Department II, require an increase in variable capital by 50, since the initially advanced capital in Department II was spent in the ratio 2:1. The value composition of Department II, as it goes into production the next year, will be  $1,600c + 800v$ . The process of the distribution of the means of production and consumer goods within Departments I and II may be illustrated as follows:



Realisation of the product will take place as follows. The Department I capitalists buy means of production worth 4,400 from one another. The remaining part of the means of production (1,600) is exchanged for consumer goods in Department II. As a result of this exchange, the Department I capitalists receive consumer goods worth 1,600, while the capitalists of Department II receive means of production to the value of 1,600. The realisation of the remaining consumer goods in Department II (1,400) takes place within this Department. The process of exchange between the Departments will appear as follows:

$$I. 4,400c + \boxed{1,100v + 500m} = 6,000$$

$$II. \boxed{1,600c} + 800v + 600m = 3,000$$

The chief condition for the realisation of the aggregate social product under extended reproduction is: the sum of the annual incomes of the workers and capitalists in Department I must be greater than the constant capital consumed in Department II in the course of the year, i.e.,  $I(v+m) > IIc$ .

Another condition for realisation under extended reproduction may be represented by the equality: the value of the variable capital (1,000) plus the part of accumulated surplus value added to the variable capital (100), plus the part of surplus value intended for the personal consumption of the capitalists (500) of Department I must, all together, equal the value of the constant capital (1,500) plus the part of accumulated surplus value (100) added to the constant capital of Department II, i.e.,  $I(v+v \text{ additional} + m \text{ for personal consumption}) = II(c + \text{additional } c)$ .

One more condition for realisation is that the entire product of Department I under extended reproduction be greater than the sum of the constant capital consumed in the previous year in Departments I and II, i.e.,  $I(c+v+m) > Ic + IIc$ . In other words, Department I must produce an amount of additional means of production capable of ensuring an increase in the constant capital of both Departments in the coming year.

Yet another condition for realisation under extended reproduction is that all newly created value must be greater than the value of the product of Department II:  $I(v+m) + II(v+m) > II(c+v+m)$ .

The new production cycle in the second year begins on the basis of more capital and, if the rate of surplus value is 100 per cent, the aggregate social product in the second year will be:

$$\text{Department I: } 4,400c + 1,100v + 1,100m = 6,600;$$

$$\text{Department II: } 1,600c + 800v + 800m = 3,200.$$

This is how extended capitalist reproduction proceeds and such are the conditions for realisation, which predetermine the course of extended reproduction.

Under extended reproduction, the development of the productive forces is expressed in the fact that the share of social labour used in the production of means of production grows faster than that going for the production of consumer goods.

The priority growth of the production of means of production compared with the production of consumer goods is an economic law of extended reproduction.

"The whole meaning and significance of this law of the more rapid growth of means of production lies in the one fact that the replacement of hand by machine labour—in general the technical progress that accompanies machine industry—calls for the intense development of the production of coal and iron, those real means of production as means of production."<sup>1</sup>

The theory of realisation clarifies the conditions necessary for realisation of commodities under simple and extended capitalist reproduction. It in no way asserts, however, that, under capitalism, these conditions are always actually observed. On the contrary, they are constantly violated.

Where competition and anarchy of production are the rule, no one knows exactly the market requirements, so the specific correlations necessary between the industries and within each industry are set through constant and countless violations of proportionality.

Under capitalism, there is an antagonistic contradiction between production and consumption. The goal of capi-

<sup>1</sup> V. I. Lenin, "On the So-Called Market Question", *Collected Works*, Vol. I, p. 105.



talist production—maximum profit—is achieved by expanding production and accumulating capital. At the same time, the expansion of production and accumulation of capital take place at the cost of a drop in the living standards, effective demand and consumption of the working people. This leads to a narrowing of the market and difficulties in realising goods.

The bourgeoisie strives to resolve this contradiction by seizing foreign markets. The struggle for foreign markets, the seizure, division and redivision of them, create very sharp contradictions and engender countless conflicts between capitalist countries, conflicts that sometimes even develop into world wars.

## 2. THE NATIONAL INCOME

What is the national income?

As we have already seen, the aggregate social product means the entire mass of material wealth produced in society in the course of, say, a year. The social product goes to replace constant capital, since it is value transferred from means of production to newly produced output. The remainder of social product (variable capital and surplus value) is new value created during the year. This part of the aggregate social product is the *national income* of capitalist society.

If, for example, a country produces 90 billion dollars worth of output during the year, and 60 billion dollars worth go to replace the means of production used up over the year, the national income created will be 30 billion dollars.

In physical terms, the national income consists of consumer goods and of the means of production that go to expand production.

The national income under capitalism is created by the workers employed in the sphere of material production: in industry, agriculture, construction, transport, and so on. The national income is created by the workers, peasants, craftsmen and intellectuals employed directly in the sphere of material production.

No national income is created in the non-productive sphere which includes the government machine, credit,

trade (apart from those operations that are a continuation of the production process in the sphere of circulation), the armed forces, medical institutions, entertainment enterprises, and so on. All outlays of these branches are covered out of the national income created in the productive sphere.

Since the national income is created in the sphere of material production, conditions for its growth are an increase in the number of people employed in branches of production, and a rise in the productivity of their labour, as well as a drop in the number of workers employed in the non-productive sphere. Since, as capitalism develops, the government machine, the police force and armed forces, and the number of people serving the bourgeoisie and out of work all grow, this restricts the growth of the national income.

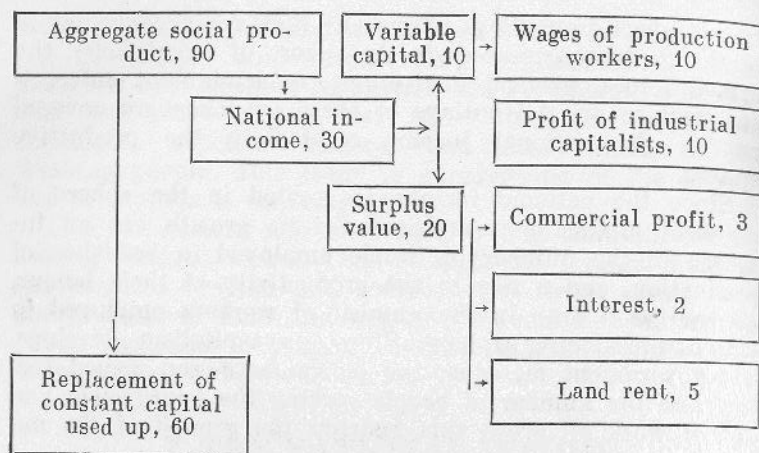
### Distribution of the national income

The distribution of the national income under capitalism has a class character and is carried out in the interests of the exploiters, rather than the working people. There is primary and secondary distribution of the national income.

Under capitalism, the national income falls primarily into the hands of the capitalists. The primary distribution of the national income consists in it being distributed between capitalists and workers. The workers receive wages and the capitalists surplus value, which is distributed between industrial capitalists, merchants, bankers and landowners. This distribution may be illustrated by the following scheme (in billion dollars).

After the national income has been distributed between the chief classes of capitalist society—the proletariat, capitalists and landowners—its secondary distribution, or redistribution, takes place.

How is the national income redistributed? We have seen that, no national income is created in the non-productive sphere (medical institutions, education, entertainment, the armed forces, etc.), but the capitalists who own undertakings and establishments in this sphere pay their workers wages (doctors, teachers, entertainers, etc.), cover their own overheads on maintaining premises and also receive



profits. The capitalists cover all these outlays out of the national income created in the sphere of material production, through payment for services, i.e., by charging for treatment, education, various domestic services, and so on. The payment for services provides compensation for outlays on maintaining these enterprises and ensures average profit for the capitalists in the non-productive sphere.

Part of the incomes of the working people are redistributed through the state budget and used by the bourgeois state in the interests of the ruling class.

The bourgeois state maintains armed and police forces, penal institutions, judicial bodies, an administrative machine, etc., at the expense of the state budget. The main source of revenues for the state budget is taxes levied on the population. This means that the working people, who receive wages as a result of the primary distribution of the national income, pay taxes on them to the state. Thus, the part of the national income at the disposal of the working people is, in fact, diminishing.

As capitalism develops, taxes grow. In the USA and Britain, for example, taxes constitute over 90 per cent of the revenues of the state budget. Moreover, 40 per cent of the national income is redistributed through the budget in the USA and over 45 per cent in Britain. In the capitalist countries, taxes serve as an instrument for the additional exploitation of wage workers, outside the confines of the production process.

## How the national income is used

Like the distribution of the national income, its use under capitalism has a class character. The national income is used for consumption and accumulation.

The share of the national income going for the personal consumption of the working people is not enough for a substantial majority of them to be ensured a survival minimum. A tremendous number of working people under capitalism have to go short of the most essential things, to live in housing lacking in amenities, deprive their children of education, and so on.

A large share of the national income is appropriated by the exploiting classes. Part of it is spent by capitalists for their personal consumption, including for purchasing luxuries, as well as maintaining a large staff of servants. Another part they use to expand production, or for accumulation. But this share is relatively small compared with society's possibilities and requirements. The relatively small volume of accumulation is explained by the fact that a significant part of the national income is spent unproductively: on militarisation of the economy, on maintaining an inflated government staff, on advertising and so on.

The class character of the distribution of the national income under capitalism means that the purchasing power of the working masses falls behind the expanding production. From time to time the gap becomes enormous and leads to economic crises of overproduction.

## 3. ECONOMIC CRISES

### The essence of and main reason for crises

French utopian socialist Fourier described the crises that were beginning to be observed as "abundance becoming a source of need and deprivation".

The first obvious signs of a crisis of overproduction are: trade dries up, the market becomes swamped with a mass of unsellable goods, factories and plants close down, and many workers are deprived of the means of subsistence.

Is it really true that capitalist society produces "too much" grain, clothing, fuel, etc.? Of course not. The overproduction of commodities, leading to crises, is not abso-



lute, but relative. The excess of goods exists only in comparison with effective demand, but certainly not with society's actual requirements. During a crisis, society's requirements do not fall, but there is a sharp drop in the working people's purchasing power. At such times, the people are in great need of the most vital essentials, and their requirements are satisfied even less than at other times.

The most profound reason for economic crises of overproduction under capitalism is the *basic contradiction of capitalism—the contradiction between the social character of production and the private capitalist form of appropriation of the results of production.*

Capitalist production is based on the social division of labour. As capitalism develops, there is a further division of labour and production breaks down into an increasing number of branches. Hundreds and thousands of workers work in large enterprises that are interconnected and operate for the national and the world market. Thus, by combining labour on a tremendous scale, capitalism gives production a social character, while each individual commodity is the result of the social labour of many thousands of workers.

But capital gives production a social character in an extremely antagonistic form. The growing socialisation of production is in the interests of the capitalists, in their pursuit of higher profit. The means of production used by millions of people in their work are the private property of capitalists, so the product of their labour becomes the property of a handful of capitalists.

The basic contradiction of capitalism is manifested, above all, in the contradiction between the organisation of production in individual enterprises and the anarchy of production on the scale of society as a whole. This is reflected in the fact that, in each individual capitalist undertaking, the labour of the workers is organised, but in society as a whole, owing to the private ownership of the means of production, there is anarchy of production. Each capitalist strives to maximise his profit. In the pursuit of a high rate of profit, capitalists expand production (or reduce it, in order to transfer capital into other, more profitable industries), without considering the requirements of society. The proportions between the branches of production are, therefore, disturbed, and this engenders difficulties and

the impossibility of the entire social product being realised.

The basic contradiction of capitalism is also seen in the contradiction between capitalism's inherent tendency towards an unlimited expansion of production and the limited nature of the effective demand of the main consumers—the working masses.

The tendency towards an unlimited growth of production is due to the operation of the basic economic law of capitalism—the law of surplus value. The pursuit of profit compels capitalists to accumulate, to expand production, improve their technology, introduce new machinery, hire additional workers and produce more. But the striving to expand production endlessly is not backed up by a corresponding expansion of consumption. Moreover, the striving to receive maximum profit induces capitalists to reduce wages and step up the degree of exploitation. But increased exploitation and impoverishment of the working people means a relative drop in effective demand and diminishes opportunities for selling commodities. The result of all this is economic crises of overproduction.

The basic contradiction of capitalism is manifested, too, in the class antagonism between the proletariat and the bourgeoisie. Under capitalism a total rift has taken place between the means of production concentrated in the hands of the capitalists and the actual producers, who are deprived of everything apart from their own labour power. This rift is clearly observed in crises of overproduction, when, on the one hand, an excess of means of production and consumer goods builds up and, on the other, there is a surplus of labour power, a mass of unemployed people, deprived of means of subsistence.

## The capitalist cycle and its phases

Crises of overproduction occur periodically. The first industrial crisis broke out in Britain in 1825. The 1847-1848 crisis, which embraced the USA and several European countries, was the first world economic crisis. The deepest crisis of last century was in 1873, and it heralded the transition from premonopoly capitalism to monopoly capitalism, i.e., imperialism. The 20th century's deepest crisis, called the Great Depression, lasted from 1929 to 1933.

The period from the beginning of one crisis to the be-

ginning of another is called the economic cycle. It includes four phases: crisis, depression, recovery and boom.

*Crisis*—the main phase of the cycle—is characterised primarily by overproduction of commodities, sharply falling prices, multiple bankruptcies, a sharp drop in production, a rise in unemployment, a fall in wages, actual destruction of commodities, equipment and enterprises, and a reduction of home and foreign trade. At this phase of the cycle, the contradiction between the growth in production possibilities and the relative drop in effective demand is manifested in violent and destructive forms. The high level of development of the productive forces comes up against the narrow bounds of capitalist relations of production, which have become fetters and brakes on their further development. The scale of production during crises is forcibly reduced to the level of the effective demand existing in society. The transition from crisis to depression begins.

*Depression*—the second phase of the cycle—is characterised by a halt to the further development of the crisis and still stagnant industrial production, low commodity prices, slack trade and a low rate of profit. Unemployment and wages remain at the same level as during the crisis phase. Accumulated stocks of goods are partly destroyed and partly sold off at sales prices. Capitalist production remains in depression until competition and the struggle for sales markets and sources of raw materials induce capitalists to reequip their enterprises and renew fixed capital. By means of all sorts of technical improvements, the capitalists strive to reduce the costs of production and make it profitable even at the low prices engendered by the crisis. A demand for equipment appears and incentives to expand production are created. Gradually the preconditions are established for a transition to a new phase of the cycle—that of recovery.

*Recovery* is characterised by the fact that those enterprises that have survived the crisis continue to renew their fixed capital and gradually begin to expand production. The volume of production approaches that of the eve of the crisis, and then overtakes it. Trade picks up; prices rise along with profits; unemployment gradually falls. When capitalist production overtakes the maximum precrisis level, it is entering the phase of boom.

*Boom* is the last phase of the cycle. During this phase, the tendency for unlimited growth of production is mani-

festated to the full. Once again, the capitalists strive to overtake one another, expand their undertakings, begin new construction, and throw growing quantities of goods on to the market. The rapid growth of production leaves the growth of effective demand further and further behind. Overproduction is constantly growing, at first, in hidden form, and stocks of surplus commodities are piled up increasingly. At this, the highest boom stage, the market suddenly becomes oversaturated with goods for which there is no effective demand; prices fall and a crisis sets in. Then the whole cycle begins again.

Thus, the development of capitalist production is not smooth; it experiences sharp fluctuations, booms and recessions. This cyclical form of development of capitalist production is a result and evidence of the intensifying contradiction between the productive forces and relations of production; it shows that capitalism itself sets limits to its own development and will inevitably perish.

In addition to industrial crises, the capitalist countries also suffer agricultural crises, i.e., crises of overproduction of agricultural produce.

Agrarian crises are usually protracted because agriculture is a backward sector of the economy compared with industry. The monopoly of private ownership of the land hampers the free flow of capitals, thus preventing the mass renewal of fixed capital in agriculture and delaying the end of the agrarian crisis. Moreover, during crises, small peasant producers do their best to maintain their previous level of production in order to remain in possession of the land, and this exacerbates the overproduction of agricultural produce, thereby dragging out the crisis.

The main burden of agrarian crises falls on the peasant masses and leads to their ruin.

### Crises and intensification of the contradictions of capitalism

During crises, it becomes particularly obvious that capitalism is unable to deal with the forces that it has itself engendered. Each economic crisis brings a sharp drop in production and in the volume of home and foreign trade.

Thus, from 1929 to 1933 in Britain, the level of coal production fell back to that which had existed 35 years



earlier; steel output dropped back 23 years; iron output, 76 years; and foreign trade, 36 years.

During a crisis tremendous wealth is destroyed, while even the most vital requirements of the broad population are not satisfied. Thus, during the Great Depression of 1929-1933, 92 blast furnaces were demolished in the USA; 72, in Britain; and 28, in Germany. In 1933, in the USA 10.4 million acres of cotton fields were ploughed over, and so on.

During crises, society's chief productive force—labour power—is wasted. The crisis throws millions of workers on to the streets, where they suffer imposed idleness and a pointless existence.

Crises intensify the class contradictions between the proletariat and the bourgeoisie, between the bulk of the peasantry and the landowners who exploit them, users, and others. The working class loses a significant part of what it has achieved in its struggle against the capitalists.

The broadest masses of the proletariat, doomed by crises to tremendous deprivation, acquire a deep class consciousness and revolutionary resolve. The workers become convinced that the only way out of poverty and hunger is a change in the economic and social system. Even the backward strata of the working people begin to understand the need to fight against the exploiters.

Thus, economic crises show clearly the need for a revolutionary replacement of capitalism by socialism, which would eliminate the contradictions of the bourgeois system and open up boundless scope for the development of society's productive forces.

## REVISION EXERCISES

1. What are individual and social capital?
2. Describe the aggregate social product in terms of value and physical forms.
3. What are the conditions for realisation under capitalist simple and extended reproduction?
4. Describe the national income, its distribution and redistribution under capitalism.
5. What is the main reason for crises under capitalism?
6. Describe the capitalist cycle.
7. What role do crises play under capitalism?

## B. MONOPOLY CAPITALISM—IMPERIALISM

During the last thirty years of the 19th century, capitalism developed into its highest and last stage—imperialism. The main distinguishing feature of this stage is that free competition is replaced by monopoly domination.

The development of the productive forces during this period advanced far. In the iron and steel industry new methods of steel smelting (Bessemer, Thomas, and open-hearth) requiring a transition to large-scale steel works became widespread. The last third of the 19th century saw a number of major inventions (the dynamo machine in 1867, the internal combustion engine in 1877, the steam engine between 1883 and 1885), which speeded up the development of industry and transport. On the basis of new types of motor, new means of transport appeared: trams in 1879, cars in 1885, diesel engines in 1891, and the aeroplane in 1903. Successes in science and technology created an opportunity for the production and application of electricity.

In the last three decades of the 19th century, heavy industry took over light industry's dominant position. The branches of heavy industry grew rapidly. World steel output, for instance, grew 56 times from 1870 to 1900, that of oil 25 times, of coal over three times. Production rapidly increased in scale, particularly after the economic crisis of 1873.

The development of the productive forces and increase in the scale of production were accompanied by an inten-

sification of the contradictions of capitalism. Economic crises of overproduction became more frequent and destructive, and unemployment increased. Wars between the capitalist states broke out more often, and this brought untold suffering to the ordinary people. At the same time, as the condition of the working class was deteriorated, there was an unprecedented increase in the wealth of the capitalists. This intensified the economic and political struggle of the working class.

The working class's ideologists were now faced with giving a precise analysis of imperialism and studying the new phenomena that begun to characterise capitalism at the turn of the century. This was necessary primarily in order to provide the working class with the correct theoretical weapon in its struggle against capitalist oppression.

It was Lenin who fulfilled this task, particularly in his work *Imperialism, the Highest Stage of Capitalism* (1916), which is of eternal significance, and in a number of his other works, too. Lenin showed that all the basic features of capitalism still remain under imperialism: private ownership of the means of production by capitalists, relations of exploitation of wage labour by capitalists, a form of distribution under which the wealth of some increases while the condition of others worsens, and antagonistic relations between the proletariat and the bourgeoisie.

As a result, all the economic laws of capitalism continue to operate under imperialism: the law of surplus value, the general law of capitalist accumulation, the law of competition and anarchy of production, and others. But the operation of these laws acquires new specifics.

Lenin's analysis of imperialism showed that the monopoly stage of capitalism has the following basic economic features: "(1) the concentration of production and capital has developed to such a high stage that it has created monopolies which play a decisive role in economic life; (2) the merging of bank capital with industrial capital, and the creation, on the basis of this 'finance capital', of a financial oligarchy; (3) the export of capital as distinguished from the export of commodities acquires exceptional importance; (4) the formation of international monopolist capitalist associations which share the world among themselves, and (5) the territorial division of the whole

world among the biggest capitalist powers is completed".<sup>1</sup>

Lenin's teaching on imperialism and the socialist revolution constitutes a new era in the development of Marxist thought. Lenin proved that the monopoly stage of capitalism is the eve of the socialist revolution. Comprehensive analysis of this new stage in world history allowed Lenin to determine the tremendous opportunities of the revolutionary movement in the age of imperialism.

<sup>1</sup> V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Collected Works*, Vol. 22, Progress Publishers, Moscow, 1974, p. 266.



## Chapter VII

# THE BASIC ECONOMIC FEATURES OF IMPERIALISM

## 1. CONCENTRATION OF PRODUCTION AND MONOPOLIES

### Concentration of production

Before imperialism free competition held sway. During the period of free competition, many capitalists produced the same type of output and each of them strove to sell it for the maximum profit. Free competition leads to the ruin of some capitalists and to others becoming rich and expanding their production. As Engels put it, "Competition is the completest expression of the battle of all against all which rules in modern civil society".<sup>1</sup> By ruining some and enriching others, free competition led to a concentration of production in larger enterprises, where hundreds and thousands of workers are employed. *Concentration* of production at a certain stage in its development gives rise to monopoly. Concentration of production reaches its highest stage of development under imperialism.

For example, in Germany in 1882, only 22 per cent of all factory and office workers were employed in enterprises with 50 workers or more, but the percentage had risen to 30 in 1895; 37, in 1907; 47.2, in 1925; and 49.9, in 1939. In the 1970s, in the FRG 40.2 per cent of all those employed in West German industry worked in factories and plants with a staff over a thousand strong, while such plants and factories constituted only 1.3 per cent of the total number of industrial enterprises in the country. In the USA in 1904, the biggest undertakings, producing output worth a million dollars or more, constituted 0.9 per cent of the

<sup>1</sup> F. Engels, "The Condition of the Working Class in England", K. Marx and F. Engels, *Collected Works*, Vol. 4, p. 375.

total, while 25.6 per cent of all workers were employed in them and they provided 38 per cent of the gross output of American industry. In 1939, the biggest American undertakings constituted 5.2 per cent of the total number, employed 55 per cent of all workers and produced 67.5 per cent of the gross industrial product. In 1970, the 500 biggest companies accounted for 66 per cent of gross sales in American industry. Of these, the biggest 50 corporations, or 0.5 per cent of the total, produced almost a quarter of the aggregate output of the US manufacturing industry. At present, the 100 biggest companies in the USA and the 100 biggest companies in the other imperialist countries account for a third of world capitalist production. Over the last decade there has been a sharp increase in the capitalist world in the number of monopolies with assets of over a billion dollars. At the beginning of the century there was only one such monopoly; in the early 1950s there were four, in 1963—57, but in 1974 the number of such companies had risen to 344. Half the biggest monopolies (162) are US corporations, 47 are Japanese, 30 are British, 25 West German, 22 French and 6 Italian. Over 23 million people now work for billionaire companies, as against 13 million in 1963.

The concentration of capital is accompanied by its *centralisation*, meaning an increase in capital as a result of the merging of several capitals into a single big one. This may take place by agreement, for example, when joint-stock companies are formed, or be enforced, when a big capitalist ruins and swallows up smaller capitalist enterprises after a fierce competitive struggle.

Competition forces each capitalist to reduce the price of his commodities, and only big enterprises can afford to do this. Small ones cannot stand up to the competition, so they either go bankrupt or are taken over by the big capitalist. This process is a continuous one. For example, the number of mergers and take-overs of US firms was 4,366 from 1960 to 1964, 9,557 from 1965 to 1970, while the corresponding figures for Britain were 3,828, and 7,044, and for France—7,020 and 11,764. In two years (1974-1975), about 130,000 firms with over a million dollars worth of capital each went bankrupt in the ten major capitalist countries (the USA, Japan, the FRG, France, Britain, Italy, Canada, the Netherlands, Sweden and Switzerland).

Concentration and centralisation of production and capi-

tal lead to the accumulation of huge numbers of workers in big and very big undertakings. This facilitates the unification and organisation of the working class in its struggle against capital and transforms the proletariat into an efficient revolutionary force. The concentration and centralisation of capital and production lead to a tremendous socialisation of labour, to an intensification of the class struggle between workers and capitalists.

## Forms of monopoly

The concentration of production leads straight to monopoly. Very big enterprises with big capitals have difficulty defeating each other in the competitive struggle. Under these conditions, the opportunity and necessity arise for the biggest capitalists to come to an agreement with one another in order to divide up markets and sources of raw materials, to set uniform prices, and so on.

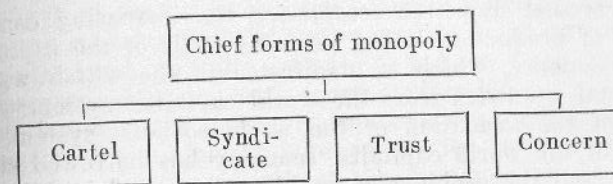
A *monopoly* is an association of capitalists in whose hands the production and sales of the overwhelming majority of particular goods are concentrated. Whatever the different forms such associations might take, they all pursue the same goal—the receipt of maximum profit.

Lenin identified the following historical stages in the development of monopolies: (1) 1860s and 1870s—the highest stage in the development of free competition. The monopolies were only just beginning to take shape. (2) After the 1873 crisis. Cartels began to develop widely, but they were still the exception and were not yet stable. They were still only emerging. (3) The boom at the end of the last century and the 1900-1903 crisis: cartels became one of the foundations of economic life.

Monopolistic associations arise primarily in heavy industry, where the concentration of production is particularly rapid. Once they have embraced heavy industry, however, they also spread to other industries.

The forms of monopolistic associations are extremely diverse. Initially they consisted of short-term agreements between individual capitalists on the sales prices of commodities. These agreements prepared the ground for more long-term ones.

A *cartel* is an association of capitalists who come to an agreement on the division of markets and on sales prices,



and determine the quantity of commodities to be produced. The undertakings included in the cartel produce and sell their output independently. This form of monopoly was particularly widespread in prewar Germany.

A *syndicate* is a higher stage of monopolistic association. Its participant enterprises produce independently and retain their ownership of their own means of production, but they lose their commercial independence. The members of the syndicate do not themselves sell their output or buy raw materials; they set up a joint trading apparatus to do this for them. This form of monopoly was widespread in prerevolutionary Russia.

A *trust* is a monopoly in which there is joint ownership of all the enterprises, and their former owners become shareholders, their profits depending on the number of shares they hold.

A *concern* is an association of big trusts or enterprises in various industries, banks, trading firms, transport and insurance companies on the basis of joint financial dependence on a group of big financial capitalists.

Trusts and concerns are widespread in the USA, Britain, France, Japan and other countries.

## New forms of concentration of production and capital

At the current stage in the development of capitalism, the concentration of production and capital is gaining momentum for objective reasons, including the further advance of the scientific and technological revolution. Modern technology and the level of development of the productive forces necessitate a constant increase in the size of individual capital, this being facilitated particularly by the introduction of automated production and the need to promote research work in enterprises.



The second objective reason for the increasing concentration of production is the growing crisis of the capitalist world economy, which is manifested in the withdrawal of individual countries from the world capitalist system. As a result of the formation of the world socialist system, the sphere of the world capitalist economy has narrowed significantly and the problem of world markets and international competition has become more acute.

The concentration process is also fostered by the monopolies themselves, for they have a vested interest in raising the competitiveness of their products on the world market. They are assisted in this, to no small extent, by the bourgeois states, which encourage concentration by granting tax concessions, various subsidies, etc.

New forms of production concentration are monopolistic combination and diversification. Let us take a look at these.

Lenin wrote about combination in *Imperialism, the Highest Stage of Capitalism*, where he described it as the "grouping in a single enterprise of different branches of industry, which either represent the consecutive stages in the processing of raw materials (for example, the smelting of iron ore into pig-iron, the conversion of pig-iron into steel, and then, perhaps, the manufacture of steel goods)—or are auxiliary to one another (for example, the utilisation of scrap, or of by-products, the manufacture of packing materials, etc.)".<sup>1</sup>

At the beginning of the century, combination took place mostly in the iron and steel industry, but after the war it became widespread in other industries, too.

Thus, combination is an association of enterprises that are technologically interlinked. There are two types of combination: vertical, when an entire production process, from obtaining the raw material to producing the finished output, is unified, and horizontal, when various types of output are produced on a common raw material basis.

The second, new form of the concentration process is diversification, i.e., the production of articles that are not technologically connected with the main output, in which the given monopoly specialises. For example, General Motors, Ford and Chrysler, the USA's biggest motor compa-

<sup>1</sup> V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Collected Works*, Vol. 22, p. 198.

nies, have in recent years been actively entering the computer and rocketry industries, the production of agricultural machinery and military output, and have been carrying out research connected with space exploration.

Yet, however the forms of concentration might change under the domination of monopolies, its essence remains the same—a further growth of the economic might of the biggest monopolies, a pooling of their efforts in controlling the ever growing share of social production for the purpose of obtaining monopoly superprofit.

## Monopoly and competition

Bourgeois ideologists assert that monopoly eliminates competition. In fact, this is not the case.

First, although monopolies dominate in the economies of the capitalist countries, a perfect, one hundred per cent monopoly, even of a single branch of production, is a rare exception. There is, therefore, competition between monopolies and capitalists who do not belong to them (so-called outsiders). In this struggle, the monopolies make use of all means available to force outsiders to join the monopoly or to put them out of business.

Second, there is also competition within monopolies. The participants in cartels and syndicates compete with one another for the most profitable markets and for a bigger share of production. In trusts and concerns, there is competition between capitalists for the leading posts, for the controlling block of shares, and for profit distribution. The competition within a monopoly is usually concealed and only breaks to the surface in extreme cases, when it destroys the monopoly. A new one may take shape in place of a monopoly that collapses in this way.

Third, there is competition between monopolies in one and the same industry. This is when there are several monopolies in a single industry.

Fourth, during the age of imperialism, the competition between monopolies in different branches of production becomes particularly fierce, for example, between coal, and iron and steel monopolies, and so on.

Fifth, there is also competition between the monopolies of different capitalist countries for sales markets, sources of raw materials, and spheres of investment. The rivalry

between the monopolies of different countries is supported by the capitalist states, which exacerbates the contradictions and conflicts between the imperialist powers.

Bourgeois ideologists falsely assert that monopoly means planned, balanced development of the capitalist economy. Though monopoly grows out of free competition, it does not eliminate competition, but exists alongside it. Under the predominance of monopolies, the competitive struggle becomes especially fierce and predatory. In order to get rid of a competitor, a monopoly makes use of financial machinations, bribery, blackmail and actual violence.

Imperialism cannot eliminate competition. "In fact it is this combination of antagonistic principles, viz., competition and monopoly, that is the essence of imperialism, it is this that is making for the final crash, i.e., the socialist revolution."<sup>1</sup>

## 2. FINANCE CAPITAL AND THE FINANCIAL OLIGARCHY

### The concentration of capital and monopoly in banking

The concentration of production and formation of monopolies in industry inevitably lead to concentration of capital in banking and the creation of banking monopolies. "We shall only have a very insufficient, incomplete, and poor notion of the real power and the significance of modern monopolies if we do not take into consideration the part played by the banks."<sup>2</sup> The fierce competition between banks results in small banks being taken over by big ones, which conclude agreements with one another and this is how banking monopolies arise. They subordinate small banks, savings banks and credit societies. Each such monopoly commands dozens, and sometimes even hundreds of smaller banks. The banks grow in size and their turnovers increase. In the USA, for instance, in 1900 there were

<sup>1</sup> V. I. Lenin, "Comments on the Remarks Made by the Committee of the April All-Russia Conference", *Collected Works*, Vol. 24, Progress Publishers, Moscow, 1974, p. 465.

<sup>2</sup> V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Collected Works*, Vol. 22, p. 240.

10,382 banks with assets worth 10,785 million dollars; in 1940 there were 15,017 banks with assets of 80,213 million dollars. Consequently, over 40 years the number of banks increased by only 50 per cent, while bank assets increased eightfold. In the USA, the assets of the 50 biggest banks constituted 32.8 per cent of total assets in 1950, 39 per cent in 1960 and 47.8 per cent in 1970. At the beginning of 1975, 177 US banks, constituting only 0.01 per cent of the total number of merchant banks, concentrated in their hands 48.5 per cent of the total assets of US merchant banks (in 1960 the figure was 36.9 per cent). In Britain, the four biggest banks concentrate, at present, about 90 per cent of all bank deposits. In the FRG, the biggest four banks account for almost 44 per cent of all bank assets. In France, ten banks hold about 70 per cent of all bank assets and almost 80 per cent of deposits and the "Big Three"—59 and 68 per cent respectively. In Italy, the share of six banks in the total sum of bank assets is over 50 per cent, and in deposits—66 per cent. In Japan, about 56 per cent of all bank assets and two-thirds of all deposits are concentrated in ten banks. At the present time, in the capitalist world 100 banks control 85 to 90 per cent of all financial operations, thereby ensuring the interests of big industrial and finance capital.

Concentration in banking has the same result as in industry, i.e., the formation of banking monopolies. Lenin wrote on this: "Among the few banks which remain at the head of all capitalist economy as a result of the process of concentration, there is naturally to be observed an increasingly marked tendency towards monopolist agreements, towards a *bank trust*."<sup>1</sup>

The current forms of banking monopoly are cartels, syndicates, trusts and concerns. A *banking cartel* is a group of several banks agreeing to co-ordinate their joint interests (mutual responsibility for liabilities, maintenance of an identical interest rate on deposits and loans, etc.).

A *banking syndicate* or *consortium* is a group of banks agreeing to carry out certain profitable operations that are beyond the possibilities of any single bank (the floating of large government loans, the promotion of joint-stock companies with a large capital, and so on).

<sup>1</sup> V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Collected Works*, Vol. 22, p. 249.



A *bank trust* is the joint ownership of capital by several big banks through their total merging.

A *banking concern* is an association of officially independent banks under the financial control of a single big bank, which has bought up the controlling blocks of shares of the concern's other member banks. In the 1970s, international banking associations began to be set up to back up the activities of huge international corporations, for which the bounds of the existing banking system had become confining. In the first half of the 1970s, several such groups were formed: European Banks International, with total assets of 110.1 billion dollars; Associated Banks of Europe, with assets of 64.1 billion dollars; CCB, in Brussels, with assets of 62.6 billion dollars; the Orion group of six banks, in London, (the USA, Britain, Japan, the FRG, Italy and Canada) with total assets of 164.8 billion dollars.

The concentration of banking and the formation of banking monopolies bring changes in the relations between banks and industry.

### The new role of banks

Initially, banks were intermediaries in payments. As capitalism develops, their credit operations expand. The bank takes capital from capitalists who have no use for it at the given time, and put it at the disposal of other capitalists, who are in need of funds. The concentration and centralisation of banking results in the banks wielding tremendous power over the whole economy.

By concentrating in their own hands the current accounts of capitalists, the big banks know the state of their affairs, control them and, finally, by offering better or worse credit conditions, subordinate industrial capitalists to themselves and direct their activities.

From modest intermediaries in payments, banks have become mighty financial centres. This greatly speeds up the concentration of production, because the banks give credit preference to big undertakings associated in monopolies. The banks acquire a vested interest in these monopolies prospering and begin to buy their shares. They make sure, however, that they purchase adequate shares to ensure themselves the decisive role in the monopoly.

### Finance capital and the financial oligarchy

Lenin wrote concerning the essence of finance capital: "The concentration of production; the monopolies arising therefrom; the merging or coalescence of the banks with industry—such is the history of the rise of finance capital and such is the content of that concept."<sup>1</sup>

The banks buy up the shares of industrial, commercial, transport, insurance, and other monopolies, thereby becoming their co-owners. In turn, industrial monopolies also hold shares in the banks connected with them. An intertwining and coalescence take place between monopolistic bank and monopolistic industrial capitals. This is the basis on which finance capital emerges.

The coalescence of bank and industrial capitals takes various forms. It is manifested, in particular, in personal unions, i.e., in the same people heading banking, industrial, commercial and other monopolies. The heads of banks are members of the boards of industrial enterprises, and representatives of industrial monopolies, in turn, are included on the management of banks. The structure of finance capital varies. Such financial institutions as insurance companies, investment trusts, pension funds, savings banks, and the like, have come to play a major role in mobilising the population's funds for financing industrial monopolies. For this reason, modern finance capital constitutes a coalescence of industrial monopolies not only with banking ones, but also with the financial institutions listed above.

One concrete manifestation of the power of finance capital is the domination of the financial oligarchy.

The growth of monopolies and of finance capital results in the biggest bankers and industrialists forming a small group of people who hold the dominant position in the economy and politics. A financial oligarchy takes shape, i.e., a small number of finance kings dominate and hold all the power. All the vitally important sectors of the economy, all the key positions in the politics of the capitalist countries, are in the hands of the financial oligarchy.

One concrete form of financial oligarchy is the monopoly-finance group. In the USA, for example, the decisive

<sup>1</sup> V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Collected Works*, Vol. 22, p. 226.

role in the country's economy is played by 18 high finance groups, which control assets to a sum of 678.4 billion dollars, including 319.5 billion in banking and 358.9 billion in industry, commerce, and the services sphere. The biggest of these financial groups are the Morgans, Rockefellers, California and Chicago groups.

The Morgan sphere of influence is the iron and steel industry, the chemical industry, the motor, electrical engineering, electronics, rubber industries, etc. The group has 167.5 billion dollars worth of assets, including 54.7 billion in banking, and 112.8 billion in industry, commerce and the services sphere.

The Rockefeller sphere of interest includes oil, the aviation, pulp-and-paper, chemical industries, etc. The controlled assets of this group constitute 124.6 billion dollars, of which 67.4 billion are in banking and 57.2 billion in industry.

The sphere of interest of the California monopoly-finance group extends to oil, the aerospace, electrical engineering and electronics industries, and so on. The controlled assets of this group stand at 66.7 billion dollars: 45 billion in banking and 21.7 billion in industry.

The Chicago monopoly-finance group's sphere of interest includes the iron and steel industry, oil, the electrical engineering, and food industries, and agricultural machinery. Its controlled assets are 55 billion dollars, 17.4 billion of which are in banking and 37.6 billion in industry.

In Japan, two high finance groups—Mitsui and Mitsubishi—control all the key branches of the economy—metallurgy, engineering and instrument-making, the chemical industry, freight transfers, banking and insurance, trade, storage and so on.

In Britain, the decisive role in the country's economy is played by eleven financial groups that control the key branches of the economy—metallurgy, aviation, television, electronics, shipbuilding, engineering, the chemical industry, oil extraction and refining, shipping, international banking operations, foreign trade, etc.

The domination of a financial oligarchy is characteristic of other capitalist countries, too.

The financial oligarchy also dominates in the economic sphere by means of the so-called holding system, the essence of which is as follows. A big financier or group of financiers holds the controlling block of shares or otherwise takes control of the head joint-stock company, which is

the parent company. This parent company acquires the shares of other joint-stock companies and, once it obtains a controlling block, dominates over dependent daughter companies, which themselves control subsidiary companies, and so on. Through the holding system, a financier with a capital of, say, a billion dollars, can bring much more capital under his control. The sphere of domination of big capital is thereby constantly expanding. This system may be depicted in the form of a multistorey pyramid, with the top figures in the financial world at the pinnacle.

The financial oligarchy also dominates in politics, and, on this basis, the monopolies merge with the state machine, giving rise to state monopoly capitalism.

### 3. THE EXPORT OF CAPITAL. THE ECONOMIC AND TERRITORIAL DIVISION OF THE WORLD

#### The export of capital

Before imperialism, the chief form of economic link between countries was foreign trade and the export of commodities. Under imperialism, world trade expands even further, but the export of capital now assumes primary importance. The *export of capital* is the movement of the capital belonging to the monopolies and financial oligarchy of one country into others with the purpose of increasing monopoly profits, strengthening the economic and political positions of the monopolies in the struggle for foreign markets, and expanding the sphere of capitalist exploitation of the larger part of the capitalist world by a few major imperialist countries.

The fact is that, under the domination of monopolies in the most developed capitalist countries, a capital surplus emerges. If, of course, the monopolies used their capital to raise the standard of living of the working people and lift agriculture up to the level of industry, there would be no such surplus. But then capitalism would not be capitalism. Capitalists strive to apply their capital where they will reap the biggest profits.

The need for the export of capital is thus a result of a few countries lacking scope for capital to be applied in its



country of origin. The opportunity for exporting capital appeared at the beginning of the 20th century, when the vast majority of countries had already been drawn into the world capitalist system; the chief railways had already been built or were under construction, making it possible to transport raw materials more rapidly to the ports, and it became feasible to transport mass freight over long distances.

Capital is exported in two main forms: loan and productive. The export of loan capital takes place when the governments or capitalists of other countries are granted loans, on which they must pay interest. In this case, the surplus value created by the workers in the importing country goes as interest to the exporting country.

The export of productive capital takes place when capitalists build industrial enterprises, railways, etc., in other countries. This happens as follows. In the USA, for instance, a joint-stock company is set up to build oil-extracting enterprises in a developing country. The share issue is bought up by American capitalists. The enterprises are built with the capital accumulated from the sale of the shares, while the profit made by these enterprises is distributed among the shareholders, i.e., American capitalists. In both cases, the capital is exported in order to obtain monopoly high profits.

Capital is exported predominantly to economically less developed countries where there is little capital, land is cheap, there are plenty of raw materials and wage rates are low. All these factors make it most profitable to invest here. The export of capital has serious consequences for both the importing and the exporting countries.

The capital-importing countries experience an accelerated development of capitalism, with all its inherent contradictions—the ruin and impoverishment of the masses, wasteful exhaustion of the land and the squandering of other national wealth. Under the impact of the capital imported from the imperialist states, the economies of the developing countries run in lop-sided, distorted ways. It is mainly the extractive industry and agricultural production for export that expand.

The capital-exporting countries experience a dual result from the outflow of capital. On the one hand, they increase their wealth, i.e., they are constantly receiving surplus value from outside in the form of profits from overseas enter-

prises or interest on loans. On the other hand, in these countries the export of the capital reduces the opportunities for capital investments within the country and leads to fewer jobs and higher unemployment.

Capital exports tend to expand the economic links between countries, but this means exploitation of the economically backward countries by the developed ones.

Bourgeois ideologists try to picture the export of capital in the age of imperialism as "aid" and a "boon" towards economically backward countries. The theory of decolonisation appeared: imperialism supposedly furthers the industrial development of the former colonies, making them less and less dependent on the metropolitan countries. This theory attempts to conceal the imperialist character of the export of capital which, in fact, ensures that former colonies remain agrarian-raw material appendages for the developed countries.

After the Second World War new features emerged in the export of capital owing to the establishment and development of the world socialist system and the collapse of the colonial system of imperialism.

Under these conditions, the biggest monopolies had to replace their strategy and tactics in their struggle for spheres of influence and domination of markets. They went over from overt military division of the world to methods involving the economic conquest of markets, mainly by stepping up the export of capital to the countries providing the highest profits for the imperialist powers.

Over 25 years (1946-1970), the sum total of overseas capital investments by the chief capital-exporting countries increased roughly sixfold and reached 285 billion dollars in 1970, against 51 billion in 1945.

In the postwar years changes took place in the character and direction of capital exports. In the first half of the century, capital was exported mainly to the colonies and dependent countries, but nowadays considerable amounts flow to the economically developed capitalist countries, which now account for 70 per cent of the direct overseas investments of the imperialist powers.

The reasons for this are as follows:

First, the economically developed capitalist countries have become a more profitable sphere of investment for foreign capital because they provide state guarantees of the unhindered repatriation of capitals and profits.

Second, the foreign monopolies overcome the existing customs protectionism in the foreign trade relations by setting up production branches and subsidiary companies in rival countries.

Third, the developed capitalist countries provide active markets because of the greater purchasing power, as well as reserves of skilled manpower that do not need training, and for the American monopolies there is also the advantage of paying lower wages in the West European countries than in the USA.

Fourth, the growing struggle of the developing countries for economic independence and the increasingly frequent nationalisation of the property of foreign monopolies make the corporations of the imperialist powers circumspect in exporting productive capital to the countries of Asia, Africa and Latin America.

The leading position among the capital-exporting countries belongs to the USA. At the end of 1979 the sum total of all American investments overseas was over 180 billion dollars, or 62.5 per cent of all the overseas investments of the developed capitalist countries, while in 1938 the USA accounted for only 30 per cent of world capital exports. The chief regions in which American capital is invested are Western Europe, Japan, and Canada, while the main sphere of investment consists of the most recent industries: the petrochemical, motor, electronics, radio engineering, and so on.

In spite of the increased risk of nationalisation, the imperialist powers are interested in using the raw materials of the developing countries and, therefore, exporting substantial sums of capital to them. The poorly developed industry, shortage of indigenous capitals, cheap labour power and local raw materials make the developing countries profitable investment spheres for foreign capital, since the rate of profit here is much higher (sometimes ten times so) than in the developed capitalist countries.

One major feature of present-day capital exports is the increased scale and share of the export of state capital. The bourgeois state also acts as guarantor for the export of private capital. Special organisations have been formed to ensure export credits. Another specific type of capital export is that by international organisations of the capitalist countries, such as the International Bank for Reconstruction and Development, the International Monetary

Fund, and others. The scientific and technological revolution has made the sale of patents and licences to other countries, as well as the widespread export of technical knowledge, a major form of capital export. The export of knowledge takes place in the form of so-called engineering, i.e., construction and exploitation, as well as in that of know-how, i.e., the totality of knowledge, experience, and unpatented inventions necessary to organise a particular type of production.

Capital is exported by many countries. Each imperialist country tries to export capital to the countries providing the most profitable investment opportunities. This leads to competition and struggle not only between capitalists, but also between imperialist countries, and exacerbates the contradictions of the entire capitalist world.

### The economic division of the world between capitalist alliances

The monopolies in the capitalist countries strive primarily for undivided sway over the domestic market. They divide it up among themselves and artificially maintain high prices, thereby reaping colossal profits. In order to do this, the monopolies try to protect the domestic market from foreign competition. To this end, the state sets high customs duties and sometimes actually prohibits the import of certain commodities. Often the customs duty is several times higher than the value of the commodity. This is how the monopolies' domination on the domestic market is ensured.

But the domestic market is limited. It cannot absorb the tremendous masses of commodities put out by the huge enterprises, so the monopolies strive increasingly to sell their products on foreign markets. How can this be done, when foreign markets are protected by high customs duties?

The export of capital is used in order to overcome these duties. Capitalists build factories and plants in other countries, and these swamp the markets with goods. A major role in overcoming high customs duties and conquering foreign markets is played by *dumping*, which means that exports are sold in other countries at low prices, sometimes at less than the production costs. Once the monopo-



lies have ousted their competitors from the market by means of these low prices, they raise them.

The struggle for foreign sales markets, sources of raw material and investment spheres leads to the economic division of the world into spheres of influence of individual monopolies. The expansion of monopolies beyond national boundaries indicates a new and higher stage in the concentration of production and capital, a stage that Lenin called supermonopoly.

When a few trusts or syndicates begin to play the decisive role throughout the capitalist world, in a particular branch of production the conditions are created for the formation of international monopolies. *International monopolies* consist of agreements between the biggest monopolies of different countries on the division of markets and sources of raw material, the scale of production, price policy, and so on.

The first international monopolies appeared in the 1860s to 1880s, by the end of the 19th century they numbered about 40, while on the eve of the Second World War (in 1939) there were already 300. There are now approximately 200 multinational giants. Bourgeois economists predict that, in the 1980s, 200-300 multinationals will control three quarters of world capitalist production.

Lenin shows that, before the First World War, electrical engineering throughout the world was monopolised by the USA and Germany. In Germany there existed AEG, which had enterprises and branches in a number of countries of Europe and America. In the USA, electrical engineering was monopolised by the General Electric Company, which had enterprises and divisions throughout America and began to penetrate Europe. In 1907 an agreement was concluded between these two monopolies on the division of spheres of influence throughout the world. The German company received the European and part of the Asian market, while the American one received the markets of the countries on the American continent.

The world oil market was, until the First World War, divided between the American company Standard Oil and the Anglo-Dutch oil company Royal Dutch Shell.

A major specific of the development of supermonopolies since the Second World War has been agreements on the division of world markets between the imperialist powers. Thus emerged the European Coal and Steel Community,

which embraced the coal and iron and steel industries of France, the FRG, Belgium, Holland, Luxembourg, and Italy, followed by the European Economic Community (the Common Market), including nine countries (the FRG, France, Italy, Belgium, Luxembourg, Holland, Britain, Denmark and Ireland) and the European Free Trade Association (EFTA), including seven countries (Austria, Britain, Denmark, Norway, Portugal, Switzerland and Sweden).

As a consequence of the uneven development of the capitalist countries, the balance of power between the monopolies is constantly changing. A prominent place in the economy of the capitalist world has now been taken over by transnational and multinational monopolies. Transnationals are national in terms of their capital, but international in their sphere of production and commercial activities. For example, Ford Motors has branches in thirty countries. Other transnationals include British monopolies, such as British Petroleum, the West German Hoechst, Simons and others, the Dutch firm Phillips, and so on. These monopolies expand mainly through overseas production.

Multinationals are international monopolies in both their capital and spheres of activity. The setting up and activities of international monopolies does not mean any let-up in the struggle for an economic division of the world or a transition to peaceful co-operation between the imperialist countries, but an intensification of this struggle.

Thus, by exporting capital and forming international monopolies, financial tycoons divide up the world economically between themselves, i.e., into spheres of influence. The struggle for the economic division of the world engenders a struggle for its territorial division.

### The territorial division of the world and the struggle for its redivision

During the period of the transition to imperialism colonies were seized on a vast scale. From 1876 to 1914 the "great" powers seized about 25 million square kilometres of colonial territory, i.e., 1.5 times more than the area of the metropolitan countries. The largest amounts of land were seized by Britain. In 1876 Britain had 22.5 million square kilometres of colonial territory with a population of 251.9 million, by 1914 the country's colonial possessions

had increased by 11 million square kilometres and their population by 141.6 million people. Germany, the United States and Japan had no colonies in 1876, and France had very few. By 1914 these four powers had seized colonies with an area of 14.1 million square kilometres and a population of about 100 million.

By the beginning of the century, the territorial division of the world was complete, and there was no "free" land left. Thus, the only way to acquire territory was to seize it from its former owner. It now became a question of redividing the world. Wars for a redivision of the already divided world characterised the entire period during which imperialism held its undivided sway.

The first war for a redivision of the world was that between the USA and Spain in 1898, as a result of which the American imperialists seized the Philippines, Puerto Rico, Guam, Cuba, the Hawaiian and Samoan Islands.

The imperialists unleashed the First and Second World Wars in order to redivide the world.

The imperialist stage of capitalism completed formation of the capitalist world economic system which took shape on the basis of the subordination of economically weak countries by the imperialist powers. A component part of the capitalist world economic system was the colonial system of imperialism.

### The colonial system of imperialism

The colonial system of imperialism included colonies, semicolonies and dependent countries, which were all oppressed and exploited by the imperialist powers. The colonial system of imperialism resulted from the economic and territorial division of the world between the imperialist powers in the last third of the 19th century and the beginning of the 20th.

The ideologists of capitalism maintain that imperialism civilised the colonies and dependencies, raising the cultural level of their peoples. In fact, this is in no way true. The colonies and dependencies characteristically had backward economies, virtually total illiteracy, no medical care, and so on. The development of the colonies was one-sided and they were transformed into agrarian-raw material appendages of the imperialist powers. During the age of imperialism, the colonies were markets for unsellable output

and were used as sources of raw material and investment spheres, especially in the extractive industries.

The military and strategic significance of colonies and dependencies was great. The imperialist powers set up strongpoints, naval and airforce bases there (and are still doing so).

The finance capital of the metropolitan states cruelly exploited the peoples of the colonies and dependencies. In these countries, as a rule, there was no labour legislation: widespread use was made of child and female labour, the working day was often 12 to 14 hours long, and wages were at starvation level. The grave position of the working people led to hunger, epidemics and the gradual extermination of the indigenous populations of these countries.

Imperialist oppression and exploitation inevitably met resistance from the peoples of the colonial and dependent countries and gave rise to a struggle for national independence. The national liberation movement of colonial peoples acquired particularly broad scale after the Second World War, when the disintegration and collapse of the colonial system of imperialism began. The imperialist states began, therefore, to pursue a policy of neocolonialism, the chief aim being to expand the sphere of capitalist relations and step up monopolistic exploitation.

After the Second World War, the territories and countries that had previously suffered under the yoke of colonial and semi-colonial oppression began, one after another, to gain their political independence and to take their own independent socio-economic development course. The colonial system of imperialism ceased to exist. This led to the abolition of the territorial division of the world between the biggest capitalist powers.

## 4. MONOPOLY PROFITS— THE MOTIVE FORCE OF MONOPOLY CAPITAL

### Monopoly profit

The basic economic law of capitalism at all its stages is the law of surplus value, which determines the entire development of the capitalist formation. It expresses the



capitalists' striving to appropriate the results of the workers' labour without paying for them and to increase surplus value. But at the different stages of capitalism, the basic economic law of capitalism is manifested in different forms.

Prior to imperialism, when free competition predominated, the pursuit of maximum profits was accompanied by a more or less free flow of capital from one branch of production into another. There were large numbers of enterprises competing with one another. The result was the formation of an average rate of profit.

Under imperialism, free competition is replaced by monopoly domination. The rule of monopolies in various industries creates the economic conditions necessary for the monopolies to maximise their profits. *Monopoly profit* includes, over and above average profit, an extra profit received by the monopolies as a consequence of their domination in a particular sphere of production or exchange.

Under imperialism, the commodities produced by the monopolies are sold not at the price of production, as was previously the case, but at monopoly prices. The *monopoly price* includes production costs and monopoly profit.

How exactly do the capitalists reap monopoly profit?

### The sources of monopoly profit

The basis of monopoly profit, as of all capitalist profit, is the surplus value squeezed out of the workers by intensified exploitation. As a result of the widespread application of various sweating systems for organising production, automation and "rationalisation", intensification of labour raises the rate and mass of surplus value.

The exploitation of the worker once he has received his wages is continued by other members of the bourgeoisie—landlords, merchants, and so on.

One source of monopoly profit is exploitation of the peasantry. The monopolies exploit the bulk of the peasants by selling them consumer goods at high prices, while buying up their produce at extremely low ones. The peasants thus fall into debt, the peasant holdings are ruined and the land and possessions are bought up for cheap.

In addition, there is an increase in monopoly profit as a result of the redistribution of the part of surplus value

created in small and medium-size non-monopolised enterprises. This redistribution takes place through the sphere of circulation, with these enterprises buying means of production and services at monopoly prices and selling their output at reduced ones, and also through the state budget.

The monopolies gain tremendous wealth by exploiting the peoples of the dependent and economically backward countries, where wages do not suffice to purchase even the essentials. The working people are burdened by taxation and forced labour is openly practiced in both agriculture and industry. The monopolies make money by selling commodities to these countries at monopoly prices and purchasing the raw materials and foodstuffs produced there at low ones. As a result of this non-equivalent exchange, the economically underdeveloped countries now lose 14-16 billion dollars a year.

Such are the chief means employed by monopoly capital to obtain monopoly profit. The operation of the basic economic law of capitalism under imperialism creates the foundations for the struggle by the broadest popular masses—workers, peasants and intellectuals—of the former colonies and dependencies against monopoly capital and against imperialism, thereby hastening its downfall.

### REVISION EXERCISES

1. Enumerate the chief economic features of imperialism.
2. What are capitalist monopoly and its forms?
3. Give an account of modern monopolistic associations in the major capitalist countries.
4. What are the forms taken by the competitive struggle in the age of imperialism?
5. What is the new role of banks in the age of imperialism?
6. What are finance capital and financial oligarchy?
7. What are the forms of capital export overseas and its effects?
8. Describe the economic and territorial division of the world in the age of imperialism and the struggle for its redivision.
9. What were the colonial system of imperialism and the role of the colonies in the age of imperialism?
10. What is monopoly profit and where does it come from?

## Chapter VIII

### THE PLACE OF IMPERIALISM IN HISTORY.

#### THE GENERAL CRISIS OF WORLD CAPITALISM

#### 1. THE PLACE OF IMPERIALISM IN HISTORY

Imperialism is the highest and last stage of capitalism. When defining imperialism's place in history, Lenin pointed out that imperialism is a special stage of capitalism. The specific character of imperialism is threefold: imperialism is (1) monopoly capitalism; (2) parasitic or decaying capitalism; (3) moribund capitalism.

#### Imperialism as monopoly capitalism

In its economic essence, imperialism is *monopoly capitalism*. Its chief feature is the domination of monopolies, and this determines imperialism's place in history.

In "Imperialism and the Split in Socialism", Lenin revealed the four main features of monopoly capitalism.

First, monopoly arose when the concentration of production reached a very high degree. Monopolistic associations play the decisive role in the economic and political affairs of the capitalist countries.

Second, monopoly arose because banks changed from modest intermediaries into omnipotent financial centres. In each of the developed capitalist countries, finance capital establishes a "personal union" of industrial and banking capital and takes control over sums running into billions. A small number of billionaires and millionaires have absolute control over all the country's wealth.

Third, the monopolies have led to the intensified seizure

of the most important sources of raw materials, sales markets and investment spheres. Their influence covers entire countries and even whole continents, exacerbating the contradictions in the capitalist world to the extreme.

Fourth, monopoly arose out of the colonial policy pursued by the imperialist powers. The export of capital and commodities is used by imperialism as a means for enslaving nations both economically and politically.

All this, taken together, results in the monopolies uniting huge enterprises, the labour of literally hundreds of thousands of people, taking over sources of raw material and sales markets, and having various experts and scientists on their payrolls. The monopolies take the socialisation of production to the extreme possible under capitalism, but this tremendous progress in the socialisation of production is based on private ownership of the means of production and serves the interests of the monopoly bourgeoisie and financial oligarchy. The broad population not only receives no benefit from the rapid development of the productive forces, but is increasingly exploited.

Consequently, the domination of monopolies greatly exacerbates the chief contradiction of capitalism—that *between the social character of production and the private capitalist form of appropriation of the results of production*. At its imperialist stage, capitalism became a reactionary force holding back the development of human society.

Lenin showed that monopoly leads to the most comprehensive socialisation of production. The high degree of socialisation and development of production testifies that there are all the *material premises for a socialist transformation of society*.

Under imperialism, the productive forces of society achieved a level that intensified enormously the contradiction with the private capitalist form of the appropriation of the results of labour. As a consequence, the productive forces develop slowly or are even thrown into reverse during periods of economic crises.

At the same time, the monopolies step up their oppression of the working people. The working class begins to wage a struggle, gains courage and experience in this struggle, and thus becomes capable of taking power into its own hands.

Lenin pointed out that, under imperialism, features of



the transition period from capitalism to a higher socioeconomic formation were taking shape and revealing themselves all the time. Imperialism's place in history is determined by the fact that it is the highest and last stage of imperialism.

### Imperialism as parasitic or decaying capitalism

Imperialism is not only monopoly capitalism, but also *parasitic or decaying capitalism*. "Monopolies, oligarchy, the striving for domination and not for freedom, the exploitation of an increasing number of small or weak nations by a handful of the richest or most powerful nations—all these have given birth to those distinctive characteristics of imperialism which compel us to define it as parasitic or decaying capitalism."<sup>1</sup> The parasitic character of imperialism is manifested in the fact that the vast majority of capitalists are in no way connected with the production process. They have become shareholders, the owners of state bonds and other securities that bring in an income. Meanwhile, the actual running of enterprises is carried out by hired managers.

The decay of capitalism is seen in the inability of capital to make use of the available productive forces, to provide work for the unemployed and fully load productive capacity. The richest of the developed capitalist countries—the United States of America—has developed chronic unemployment and enterprises work constantly at less than capacity.

The parasitic character of imperialism is also expressed in growing militarism and the unleashing of wars. Increasingly vast sums go not for the production of material wealth, but for the destruction of productive forces, especially society's chief productive force—man. Thus, during the First World War 10 million people were killed and 20 million wounded. Millions of people died from epidemics and hunger. During the Second World War almost 50 million people died. Such is the price humanity has paid for the imperialists' attempts to resolve their contradictions by means of war.

<sup>1</sup> V. I. Lenin, "Imperialism, the Highest Stage of Capitalism", *Collected Works*, Vol. 22, p. 300.

The parasitic character of monopoly capitalism is manifested in the export of capital. The enormous profits reaped from exporting capital mean that the monopolies lose interest in developing production in their own countries. At the same time, the capital exported to economically less developed countries determines these countries' distorted, one-sided development, dooming them to long years of economic and cultural backwardness. The huge profits accruing from capital exports allow the monopoly bourgeoisie to allocate certain sums for bribing the upper echelons of the working class. This is why Lenin called the export of capital parasitism squared.

The decay of capitalism at the present stage is also connected with two inherent trends relating to scientific and technological progress: one towards a slow-down in this progress and the other towards its development.

Monopoly, in as far as it ensures high profits by inflating prices, reduces the stimuli to improve production technology, i.e., it creates a tendency towards stagnation. Lenin wrote on this: "Since monopoly prices are established, even temporarily, the motive cause of technical and, consequently, of all other progress disappears to a certain extent and, further, the *economic* possibility arises of deliberately retarding technical progress."<sup>1</sup>

It becomes an increasingly frequent occurrence for monopolistic organisations to buy up inventions not in order to apply them, but in order to prevent their competitors from doing so. The capitalist relations of production are too confining for the results of the scientific and technological revolution to be used in full for peaceful purposes in the sphere of nuclear power, space research, the development of chemistry, automation of production and other major achievements. Imperialism makes use of technical progress primarily for military purposes, in order to create means of mass destruction. The development of new technology assumes a distorted, militaristic character. It turns the achievements of the human mind against mankind itself.

The pursuit for monopoly profit does, however, induce capitalists to introduce new, more productive technology, which leads to a certain increase in production. The introduction of new technology under the conditions of state

<sup>1</sup> *Ibid.*, p. 276.

monopoly capitalism is accompanied, however, by a rise in unemployment and a drop in the working people's standard of living.

The decay of capitalism is also manifested in the way the imperialist bourgeoisie uses its profits to buy off, on a regular basis, the upper echelons of skilled workers—the so-called labour aristocracy. With the support of the bourgeoisie, the labour aristocracy seizes the command posts in the trades unions and other working-class organisations. Alongside petty-bourgeois elements, it constitutes a serious danger to the labour movement.

Through the labour aristocracy, the bourgeoisie poisons the consciousness of the workers by propounding the reformist way of "improving" capitalism and establishing "class truce". Imperialism "has recourse to demagoguery, bourgeois reformism and opportunist ideology and policy, and is constantly in quest of new methods to undermine the working-class movement from within and 'integrate' it into the capitalist system".<sup>1</sup> By splitting the ranks of the working class, the labour aristocracy prevents it from uniting its forces in the struggle against imperialism.

Imperialism is characterised by a turn from bourgeois democracy to political reaction in both foreign and home policy.

Anti-communist and anti-labour laws, the banning of Communist parties, mass dismissals of communists and other advanced workers, the drawing up of black lists in enterprises, checks on the loyalty of employees, police repression against the democratic press, the use of troops in putting down strikes, all these have become common methods employed by the imperialist bourgeoisie for maintaining its domination.

Parasitism and the decay of monopoly capitalism testify that capitalism has outlived itself historically and that it is due to be replaced by another, progressive system—socialism.

### Imperialism as moribund capitalism

Lenin described imperialism as *moribund capitalism*. This means that imperialism is transitional in character.

<sup>1</sup> *International Meeting of Communist and Workers' Parties, Moscow 1969*, Peace and Socialism Publishers, Prague, 1969, p. 12.

It greatly exacerbates all the contradictions of capitalism, the result being proletarian revolution.

*The chief contradiction is that between labour and capital.* In the period of monopoly capitalism, the working masses are exploited mercilessly in a way unprecedented under premonopoly capitalism.

The old methods of exploitation are supplemented by new ones. The monopoly position of the big capitalists allows them constantly to step up the degree of exploitation of the working class, especially following a rise in the intensity of labour and application of new wage systems, to rob the working people as consumers by charging monopoly prices for consumer goods, through taxation, fines, and so on. The sharp step-up in exploitation, the rise in unemployment, deterioration in the material condition and intensification of political oppression of the working class under imperialism lead to a further intensification of the class struggle between the proletariat and the bourgeoisie. As a result, the old methods employed by the working class in their struggle prove inadequate. Alongside the economic struggle, the proletariat sets out increasingly resolutely towards a revolutionary political struggle.

Not only the contradiction between the bourgeoisie and the proletariat increases in intensity, but also that between the financial oligarchy and all other strata of the population. The increase in exploitation and economic oppression on the part of the monopoly bourgeoisie is experienced not only by the proletariat and peasantry, but also craftsmen, the petty and middle bourgeoisie, office workers and intellectuals. This creates the conditions for all the democratic forces to be united into a single anti-monopoly movement under the leadership of the working class.

Imperialism thus brings the working class right to the stage of socialist revolution.

At the stage of imperialism there is an *intensification of the contradiction between the imperialist powers in their struggle for spheres of influence*. Each group of capitalists strives to seize and hold markets, sources of raw material and investment spheres. In their struggle for spheres of influence, the capitalists enjoy the all-out support of the state, so the fierce struggle between the imperialist countries for spheres of influence gives rise to military conflicts that weaken imperialism and shake its foundations.



During the period of imperialism there is a sharp intensification of the *contradiction between the colonial and dependent countries, on the one hand, and the imperialist powers, on the other*. The imperialist powers rob and mercilessly exploit the peoples of the developing countries. The intensification of imperialist oppression, as well as the development of capitalism in a number of former colonies and dependencies, leads to an upsurge in the struggle waged by the peoples of these countries for their economic liberation.

The emergence and consolidation of socialism heralded an age in which the oppressed peoples were to be liberated. The national liberation revolutions struck crippling blows to the colonisers. Over the last thirty years, over 80 new independent states, with a population making up a third of mankind, have been set up on the ruins of the colonial empires. The development of the contradictions between the imperialist powers and peoples of the colonial countries led to the collapse of the colonial system of imperialism.

Such are the chief contradictions that make imperialism moribund capitalism. Yet to describe imperialism as moribund capitalism does not mean that capitalism will automatically die out on its own. Imperialism is moribund capitalism because, by taking all the contradictions of capitalism to the extreme, it put the socialist revolution on the agenda and made it virtually inevitable.

The triumph of the socialist revolution, first in Russia, then later in a number of European and Asian countries and in Cuba, is brilliant confirmation of Lenin's description of imperialism as moribund capitalism.

## 2. THE DEVELOPMENT OF STATE MONOPOLY CAPITALISM

### The emergence and essence of state monopoly capitalism

*State monopoly capitalism* is characterised by a high degree of socialisation of production, an intertwining of private and state monopolies, and subordination of the state machine to the financial oligarchy, the purpose of this sub-

ordination being interference in the country's economy in order to enrich the monopolies even further.

State monopoly capitalism unites the strength of the monopolies with that of the state into a single mechanism for enriching the monopolies, suppressing the labour movement and the national liberation struggle, saving the capitalist system and unleashing aggressive wars.

The objective basis on which monopoly capitalism grows into state monopoly capitalism is the achievement of a level of development of the productive forces providing for extended reproduction, the development of the modern scientific and technological revolution and the construction of very large industrial complexes to be all in sharp antagonistic contradiction with the private capitalist ownership of the means of production. In order to save the capitalist system and, at the same time, provide a handful of monopolists with an opportunity to appropriate the fruits of social progress and make huge monopoly profits, the bourgeois state actively intervenes in the economy. Programming of production development, government financing of scientific research and technical progress, military orders, regulation of market processes and construction of state enterprises become increasingly widespread. All these measures taken by bourgeois states serve the interests of the entire capitalist class, but above all its monopoly upper crust. Given favourable conditions, they may alleviate the fundamental contradictions of imperialism somewhat, but cannot eliminate them.

The high degree of socialisation and monopolisation of the economy since the Second World War has created propitious conditions for state intervention in the capitalist economy. The monopolies are becoming increasingly intertwined with the state machine. Extensive action by the state on the reproduction process is in the interests of the monopolies.

Having enormous economic resources at its disposal, the state provides the monopolies with invaluable services, placing profitable orders with them, selling them raw materials and electricity at low prices and creating favourable conditions for exploitation of the working people. The bourgeois state steps up militarisation of the economy and unleashes aggressive wars, thereby ensuring the monopolies profitable military orders and enormous profits.

No small role in the transformation of monopoly capitalism into state monopoly capitalism is played by the intensification of interimperialist contradictions, contradictions between the imperialist and developing countries, between the rapidly growing world socialist system and modern capitalism. Under these conditions, it is essential for the bourgeois state and its resources to be used to resolve these contradictions in the interests of the national monopolies. The intensification of internal imperialist contradictions is accompanied by increased intervention by the bourgeois state in the class struggle, on the side of monopoly capital and against the working class.

### Forms of state monopoly capitalism

State monopoly capitalism takes a variety of forms, the main ones being seen in state monopoly property and state consumption, state monopoly regulation and programming of the economy, state redistribution of the national income, militarisation of the economy. Let us look closer at some of these forms.

The *state monopoly form of property* is one of the main directions in which state monopoly capitalism is developing at the current stage. It reveals itself mainly as state ownership of industrial, transport, banking and other enterprises and emerges through the construction of new enterprises at state expense, primarily for military purposes, purchases of monopoly shares by the state and the creation of joint enterprises. There is also state property in industries connected with the scientific and technological revolution, which require big investments (the nuclear and chemical industries, radioelectronics, and others) but do not give a big immediate return.

A major role in the emergence of state property is played by bourgeois nationalisation, i.e., the transfer of the property of monopolies to the state for compensation. The bourgeois state becomes the collective owner of the nationalised property. As a representative of the entire capitalist class, and especially all monopoly capital in the country, it continues to exploit the workers in nationalised enterprises. The management and running of nationalised property is taken over by state organs headed by representatives of monopoly capital and the financial oligarchy.

The monopoly bourgeoisie is forced to comply with the nationalisation of enterprises and individual industries in order to save the capitalist system as a whole. The nationalisation of some sectors of the economy may be used by the working class to unify the anti-monopolistic forces and unleash a struggle by the broad working population against the monopolies, and for the implementation of overall democratic transformations.

State monopoly capitalism presupposes *state consumption*, which superficially takes the form of purchases of goods and services by the state. State purchases constitute a stable market, providing the monopolies with big profits, since the state purchases the monopolies' goods at high prices. The vast majority of state purchases are for non-productive consumption connected mainly with militarisation of the economy, or constitute purchases of surplus goods, the purpose being to encourage the development of particular sectors of the capitalist economy. This happens especially when the monopolies are having difficulty selling their products and are threatened with a need to cut back production. In the USA, for instance, the government guarantees that all agricultural output will be purchased.

Having its own enterprises, the state is also a major seller of goods and services. In a number of countries it supplies private entrepreneurs with coal and electricity, carries out rail freight transfers, sells accumulated stocks of foodstuffs, minerals, and so on. The goods are sold to the monopolies at reduced prices and the services are provided at considerably lower rates than those paid by the broad population.

Thus, the modern capitalist state acts as an entrepreneur in the interests of monopoly capital.

The existence of state property does not imply the appearance of elements of socialism, as is asserted by reformists and revisionists, but its emergence has engendered a certain modification of capitalist relations of production. Essentially, the difference is that the worker is now opposed not by an individual capitalist or corporation, but by monopoly capital as a whole, organised in the state.

The most important form of state monopoly capitalism is expressed in *state regulation of the economy*, which is closely connected with the development of state property and



of the military industrial complex, with budget, credit and tax policy. Using this policy, the state subsidises individual monopolies and industries, influences the interest rate, pursues a policy of accelerated depreciation, reduction of profits tax, and so on.

To counter the instability of the capitalist economy, the state applies anti-cyclical regulation, the essence of this being to dampen investment during booms, in an attempt to avert the impending overproduction, and to encourage investment during crises and depressions, in order to restrict the fall in production and speed up the end of the crisis.

A major role is played in regulation of the capitalist economy by the state budget, which swallows up an ever increasing part of the national income. The state budget is used to redistribute the national income in favour of the monopolies.

State regulation is also applied to the relations between labour and capital. The bourgeois state makes broad use, particularly in the context of galloping inflation, of measures to freeze wages and put down the workers' strike movement which is geared to raising wages and improving working conditions. The measures used in regulating labour relations are directed against the workers and carried out in the interests of the monopolies.

Alongside state monopoly regulation, *programming of the capitalist economy* has been developed on a considerable scale. This is a form of state intervention in the process of capitalist production. It involves state organs compiling long-term programmes for economic development: investment, exports, imports, scientific research, regulation of the proportions between industries, training of skilled personnel, etc. All these programmes are geared to ensuring the most favourable conditions for the monopolies' activities. The programmes compiled by bourgeois state organs can be no more than recommendations to the private monopolies. Bourgeois states have to resort to economic programming as a result of the high degree of socialisation of production and the intensification of the contradictions in capitalist reproduction.

Capitalist programming must not be identified with the national economic planning practiced in the socialist countries. State monopoly capitalism does not abolish private ownership of the means of production and cannot ensure

the planned, balanced development of the national economy.

One of the characteristic features of state monopoly capitalism is *militarisation of the economy and an arms race*. Militarisation of the economy has made the bourgeois state a major consumer of goods and services. Huge government orders for armaments, expenditures on maintaining armed forces, and the creation of strategic stocks have resulted in direct military outlays constituting over 50 per cent on the expenditure side of the state budget. As a result of the militarisation of the economy a military industrial complex has taken shape in the major capitalist countries and has become an integral part of state monopoly capitalism.

*The military industrial complex* is a union of military industrial monopolies, reactionary circles in the armed forces and the state bureaucracy, who come out for a continuous step-up in military might for the purpose of strengthening and expanding the class domination of the monopoly bourgeoisie, and also for personal gain.

The material basis of this union is the arms race and the development of the military economy. Since the Second World War, it has been the military industrial complex of the USA that has developed most, but such complexes also exist in other imperialist countries.

The military industrial complex exerts a considerable negative influence on politics, the economy and other spheres of the life of society, and fulfils most of the billion-dollar military orders placed by bourgeois states for the manufacture of armaments. Military production ensures the military industrial corporations huge profits, the profit rate being substantially higher than in the civil sector of the economy.

To get a greater share of military orders and enormous profits, the biggest producers of armaments establish close links with the legislative and executive organs of state power, get their own representatives appointed to high posts in military departments, making use of personal unions and other levers for this purpose.

The military industrial complex strives to increase deliveries of weapons to other countries, opposes detente in every possible way, deliberately stirs up international tension and escalates the arms race.

## The international forms of state monopoly capitalism

One of the chief specifics of the postwar development of the capitalist countries has been the appearance of international forms of state monopoly capitalism.

The most important objective reasons for their appearance are the further intensification of the socialisation of production, the scientific and technological revolution, and exacerbation of interimperialist contradictions.

Major factors furthering the development of the international forms of state monopoly capitalism are connected with strengthening the forces of socialism and the upsurge of the national liberation movement and collapse of colonialism, which have engendered a tendency towards a unification of the capitalist countries for their joint struggle against world socialism and pursuing a neocolonialist policy.

The goal of the international forms of state monopoly capitalism is regulation of international economic relations, so, from the point of view of embracing various spheres of the economy, two forms of regulation may be identified.

The first is regulation of individual types of international economic relations, such as international trade and transport, international credit and currency relations.

In 1947, for instance, a General Agreement on Tariffs and Trade (GATT) was concluded. The GATT trading policy is determined by the imperialist powers, and its activities scarcely reflect the interests of the developing countries, their right to defend their economies and to stabilise prices for raw materials and foodstuffs.

In 1947 the International Monetary Fund and the International Bank for Reconstruction and Development were set up and began operating. Although they were created as specialised UN institutions, they virtually function under the control of the US financial oligarchy.

The second form is imperialist integration, which embraces the entire complex of relations between countries. Examples of this form are the European Economic Community and the European Free Trade Association.

Since its inception, the Common Market has had a free flow of commodities, no customs duties being charged on them, as well as a free movement of capitals and labour power. For trade with other countries, the members of the

Common Market have set unified customs tariffs making it difficult for commodities from the USA and other countries to penetrate their markets. This testifies to the fierce competition between the economic unions of capitalist countries.

International state monopoly associations do further the development of the productive forces to some extent, but, at the same time, they exacerbate imperialist contradictions, become an instrument in the competitive struggle and a new form of division of capitalist markets.

## State monopoly capitalism and the intensification of the contradictions of capitalism

State monopoly capitalism entails increased exploitation of the working class. Relying on the state machine, the monopolies step up the exploitation of the working class in capitalist enterprises and rob them even more by means of high taxes and prices. All this exacerbates the contradictions and struggle between labour and capital.

The development of state monopoly capitalism is accompanied by the appearance of a new contradiction—that between the social character of modern production and the state monopoly nature of its regulation.

In addition, being the highest stage in the socialisation of production under capitalism, state monopoly capitalism constitutes the fullest material preparation for socialism, the threshold of socialism. For the transition to socialism, however, the power must be transferred into the hands of the working class.

State monopoly capitalism develops unevenly during different periods in individual countries and branches of social production. Thus, world wars and economic crises, militarism and political upheavals have speeded up the growth of monopoly capitalism into state monopoly capitalism.

Right-wing socialists and revisionists assert that state monopoly capitalism changes the nature of imperialism. They claim that the state has become the decisive force in the economies of the capitalist countries, that it is able to ensure planned management of the economy in the inter-



ests of all society, and so on. There is, however, no truth in these assertions.

State monopoly capitalism does not change the nature of imperialism. It actually widens the rift between labour and capital, between the majority of the nation and the monopolies rather than changing the position of the main classes in the system of social production. State attempts to regulate the capitalist economy cannot abolish competition and anarchy of production, cannot ensure planned, balanced development of the whole economy, for the basis of production remains capitalist property and exploitation of wage labour.

Bourgeois theories of "crisis-free" and "planned" capitalism are refuted by the entire course of development of the modern capitalist economy. The dialectics of the development of state monopoly capitalism is such that, instead of consolidating the capitalist system, on which the bourgeoisie is counting, it actually further exacerbates the contradictions of capitalism and shakes its very foundations.

In a number of developing countries that have set out towards economic independence the state has also introduced a series of measures in the economy, builds large enterprises and focuses particularly on expanding heavy industry. But here it is *state capitalism*, not state monopoly capitalism that is developing.

In the developing countries, state capitalism is the main means by which the state actively intervenes in the economy; it is an instrument for changing the economy as structured during the period of colonial dependence. If the state is headed by progressive, democratic elements, state capitalism serves as an instrument in the struggle against foreign capital, as a means for undermining the economic foundations of its domination; it helps to consolidate and develop the national economy, and this creates the economic preconditions for a non-capitalist course of development.

### The law of uneven economic and political development

The uneven development of individual enterprises, industries and countries is typical of the entire capitalist era. Uneven development is a result of competition and the anarchy of capitalist production, but in the premonopoly

period capitalism was able to develop relatively smoothly. Countries overtook others only over a protracted period of time. The nature of capitalism's uneven development changes with the transition to imperialism, a period during which individual countries develop in jerks. The scientific and technological revolution creates new opportunities for those countries that make intensive use of the results of the rapid development of science and technology to overtake their rivals.

The changed balance of economic and military potentials of the imperialist powers leads to clashes between them. A struggle breaks out for a redivision of the already divided world. As a result of the changes in the balance of power, the capitalist world is split into hostile groups. The intensification of the contradictions in the imperialist camp leads to their mutual weakening. On this basis the imperialist front may be undermined at the point where the chain of imperialism is weakest, in the country where the conditions are most propitious for a victory of the proletariat.

The unevenness of the economic development of the capitalist countries in the period of imperialism results in them developing unevenly in political terms, too. The level of development of class contradictions differs from country to country, as does that of the political and revolutionary resolution of the proletariat and its ability to draw the bulk of the peasantry after it. This means uneven maturing of the political premises for the proletarian revolution in different countries.

Proceeding from the law of uneven economic and political development of the capitalist countries under imperialism, Lenin drew the universal, historic conclusion that socialism could triumph initially in a few, or even one capitalist country alone, and that it could not do so in all countries at once. Moreover, it was not necessarily the most developed capitalist country that would see the first victory of socialism. The triumph of the socialist revolution in one country is the start of the world socialist revolution.

The incalculable significance of Lenin's conclusion lies in the fact that it opened up revolutionary prospects for the proletarians of individual countries, gave them the initiative, and confirmed their belief that the socialist system would inevitably triumph. The fact that socialism triumphs

in different countries at different times means that there is an objective need for a socialist world economy to take shape and a possibility of protracted peaceful coexistence between the socialist and capitalist systems.

Lenin's theory of socialist revolution was fully confirmed by the victory of the Great October Socialist Revolution in Russia, which was organised by the Communist Party under Lenin's personal guidance.

Since the Second World War, further clear confirmation of Lenin's theory of socialist revolution has been provided by the withdrawal from the imperialist system of a number of European and Asian countries and Cuba that are now successfully building socialism.

### 3. THE GENERAL CRISIS OF WORLD CAPITALISM

The essence and stages  
in the general crisis of capitalism

"Our epoch, whose main content is the transition from capitalism to socialism, is an epoch of struggle between the two opposing social systems, an epoch of socialist and national-liberation revolutions, of the breakdown of imperialism and the abolition of the colonial system, an epoch of the transition of more and more peoples to the socialist path, of the triumph of socialism and communism on a world-wide scale."<sup>1</sup> This provision formulated in the CPSU Programme expresses the essence of the *general crisis of capitalism*.

The beginning of the general crisis of capitalism followed the First World War and the October Revolution in Russia. Capitalism ceased to be the only system and embrace the entire world. A sixth of the world was now occupied by a state based not on private but on socialised socialist ownership of the main means of production. The victory of the proletarian revolution in Russia meant that the end of capitalism and the triumph of socialism were at hand. Full confirmation was provided of the theory Lenin developed during the First World War to the effect that, at the stage of imperialism, socialism would triumph

<sup>1</sup> *The Road to Communism*, Foreign Languages Publishing House, Moscow, 1961, p. 449.

in different countries over an extended period, rather than all at once, through the revolutionary withdrawal of one country after another from the world capitalist system.

In one of the previous chapters we discussed economic crises. Under capitalism an economic crisis is a crisis of overproduction of commodities. It develops only in the economic sphere, though it does, of course, exert a certain influence on the political life of society. The general crisis of capitalism, however, embraces all spheres of the life of the capitalist countries—the economy, politics, culture and ideology—and is a comprehensive crisis of the world capitalist system as a whole, characterised by the struggle between moribund capitalism and nascent socialism. The transition from capitalism to socialism is the main content of the general crisis of capitalism.

The general crisis of capitalism has passed through two stages in its development and is now in its third. The *first stage* began during the First World War and developed particularly as a result of the October Revolution. The *second stage* of the general crisis of capitalism began during the Second World War and the socialist revolutions that followed in a number of European and Asian countries. In the late 1950s, world capitalism entered a new stage. The most outstanding feature of the *third stage* of the general crisis of capitalism is that it developed not as a result of a world war, but under conditions of competition and struggle between the two systems in peace-time and a change in the balance of power in favour of socialism.

The triumph of the socialist revolution in Cuba, and the socio-economic transformations in a number of developing countries that have taken a non-capitalist development course have shown the possibility of more and more links of the world capitalist system withdrawing from it in peace-time.

The distinguishing features of the general crisis of capitalism are: the withdrawal of one country after another from capitalism; a weakening of the positions of imperialism in its economic competition with socialism; a crisis and disintegration of the colonial system of imperialism; an exacerbation of imperialist contradictions, along with the development of state monopoly capitalism and a growing militarisation of the economy; the rising internal instability and stagnation of the capitalist economy, mani-



tested in capitalism's growing inability to make full use of its productive forces (lower production growth rates, periodic crises, constant underloading of productive capacity, chronic unemployment); an upsurge in the struggle between labour and capital; a sharp aggravation of the contradictions of the world capitalist economy; an unprecedented increase in politically reactionary attitudes in all spheres; a rejection of bourgeois liberties and establishment of fascist regimes in a number of countries; a deep crisis of the politics and ideology of the bourgeoisie.

Let us now consider these features during the period of the general crisis of capitalism.

### The split of the world into two systems

The 1914-1918 world war resulted from an intensification of the contradictions between the imperialist powers, which arose in the course of their struggle to redivide the world. The war undermined imperialism and created favourable conditions for its front to be breached. This happened in Russia, which proved to be the weakest link in the chain of world imperialism, the focal point of all its contradictions. As a result of the victory of the proletarian revolution in Russia, the capitalist system lost the country and it then began to build socialism, which soon showed its tremendous advantages over capitalism. By 1937 the Soviet Union was first in Europe and second in the world in terms of the volume of industrial production.

The Second World War, prepared by the forces of international reaction, was unleashed by a bloc of fascist states—Nazi Germany, Japan and Italy. The end of the war saw the utter defeat of the fascist aggressors, and the Soviet Union had played a decisive role in this defeat. The result was an unprecedented upsurge of the revolutionary and national liberation movement throughout the world. A number of European and Asian countries withdrew from the capitalist system, and this led to a further change in the balance of power between socialism and capitalism in the former's favour.

Thus, as a consequence of the Second World War there was a further deepening of the general crisis of capitalism. It entered its second stage, when socialism spread beyond the bounds of a single country and became a world system.

The world socialist system soon demonstrated its superiority over capitalism. The economies of the socialist countries develop incomparably faster than those of the capitalist ones. In 1950 the socialist countries produced roughly 20 per cent of world industrial output, while by 1960 they had increased the volume of their industrial output 6.8-fold over the 1937 figures, the capitalist countries having managed only a 2.5-fold increase.

The general crisis of capitalism entered its third stage, its main distinguishing feature being that the world socialist system is becoming a decisive factor in the development of all human society. "The main direction of mankind's development is determined by the world socialist system, the international working class, all revolutionary forces."<sup>1</sup> Consequently, the new stage in the general crisis of capitalism is characterised primarily by competition between the two world systems. The positions of socialism are constantly growing in strength, while those of capitalism are weakening. For instance, in 1980 the socialist countries were producing 14 times more industrial output than in 1950, while the developed capitalist countries were producing roughly 3.8 times as much.

### The crisis and collapse of the colonial system of imperialism

Under the impact of the October Revolution there was a tremendous upsurge in the struggle of the peoples of the colonies for national liberation and the crisis of the colonial system of imperialism set in. The *crisis of the colonial system of imperialism* means a sharp intensification of the contradictions between the imperialist powers and the colonies and dependencies. The rise in the national liberation struggle results in the colonies and dependencies freeing themselves from imperialist oppression. National liberation forces emerged and began to develop in these countries. The proletariat, the most revolutionary class in modern society, began to grow in numbers. The proletariat brought the peasantry, constituting the majority of the population in the colonies, with it into the struggle

<sup>1</sup> *International Meeting of Communist and Workers' Parties, Moscow, 1969, p. 13.*

against imperialism. A local bourgeoisie also began to grow there, and the interests of this new class conflict with the domination of the foreign monopolies.

During the First World War, the imperialist metropolitan countries were unable to supply their colonies with manufactured goods, since their industries were geared to fulfilling military orders. As a result, the colonies began rapidly to develop their own industries, especially the textile industry. Enterprises were expanded and new ones built. On the basis of the economic development of the colonies and under the impact of the October Revolution, the national liberation movement assumed a scale and forms unseen before the war. Describing this movement, Lenin wrote that "the East has been definitely drawn into the revolutionary movement, has been definitely drawn into the general maelstrom of the world revolutionary movement."<sup>1</sup>

After the First World War there was virtually no colony or dependency that did not see more or less serious uprisings against imperialism. The national liberation movement assumed a particularly broad scale in the countries of Asia. In 1924 the People's Republic of Mongolia was established and began to develop along a socialist path. Turkey and Afghanistan gained political independence. There was a mighty national liberation movement in China, India, Indonesia and other countries. The national liberation movement waged by the oppressed peoples against imperialism was headed by the working class, uniting around itself the many millions of peasants, democratic members of the bourgeoisie, and so on.

After the Second World War, the peoples of many colonies and dependencies liberated themselves from colonial regimes and began to develop independently. The collapse of the colonial system of imperialism had begun. In 1980 the colonies and semicolonies accounted for 0.3 per cent of the world population, against 69.4 per cent in 1919, showing that the collapse of the disgraceful colonial system had set in.

One of the main problems facing the peoples of the countries liberated from the yoke of imperialism is the choice of development course—capitalist or non-capitalist.

<sup>1</sup> V. I. Lenin, "Better Fewer, But Better", *Collected Works*, Vol. 33, 1976, p. 499.

What can capitalism offer these peoples?

Capitalism means suffering for the people. It cannot ensure a rapid progress of the economy or an end to poverty. Capitalist development of the countryside puts the peasants in an even more dire situation. The workers' lot is heavy labour for the sake of enriching the capitalists, or unemployment. The petty bourgeoisie is crushed by competition from big capital. Culture and education remain inaccessible to the masses, while intellectuals are forced to trade their knowledge.

What, on the other hand, can socialism offer?

Socialism is the way to freedom and happiness. It ensures a rapid rise in the economy and culture. In a single generation it can turn a backward country into an industrial one. Elimination of the exploitation of man by man puts an end to social inequality. Unemployment becomes a thing of the past. Socialism provides land for all the peasants, helps them develop their holdings, unites them on a voluntary basis in co-operatives, puts advanced agricultural machinery and agronomic science at their disposal. Socialism ensures a high material and cultural standard of living for the working class and all working people.

The course of development is the people's own choice. Given the current balance of power in the world and the realistic possibility of major support from the world socialist system, the peoples of the former colonies can decide this question in their own interests. Their choice will depend on the balance of class forces in the country. A non-capitalist course of development is ensured by the struggle of the working class, the popular masses and the democratic movement in general, and meets the interests of the majority of the nation.

Although colonialism has been wrecked by the blows inflicted by the mighty national liberation movement of oppressed peoples, it has not yet died out completely.

Modern colonialism makes use of not only open armed struggle, but also hidden forms for infiltrating the countries that have gained state independence, in order to keep them economically and politically dependent on the imperialist powers.

To this end imperialism supports reactionary circles, retards the elimination of backward social structures and strives to hamper development towards socialism or along



a progressive non-capitalist path opening up the prospect of a socialist future. The imperialists impose on these states economic treaties and military-political pacts that infringe on their sovereignty.

The mainstay of neocolonialism is the United States of America. Imperialists, with the USA at their head, are making desperate efforts to preserve, by new methods and in new forms, colonial exploitation of the peoples of the former colonies and semicolonies. The monopolies attempt to keep their grip on the levers of economic control and political influence in the countries of Latin America, Asia and Africa. These efforts are geared to maintaining old positions in the economies of the liberated countries and seizing new ones in the guise of so-called economic aid, to drawing these countries into military blocs, setting up military-dictatorial regimes and establishing military bases there.

Neocolonialism, being the chief threat to the independent development of the liberated countries, is countered by the fraternal and selfless assistance rendered to these countries by the socialist states, assistance that facilitates the young states in waging their struggle for economic independence and social progress.

One very important form of assistance rendered by the socialist states is the training of local personnel for the economy and cultural sphere in the developing countries. This training is carried out both locally, during the construction and operation of particular projects, and in the higher educational institutions of the socialist states.

The volume, character and conditions of the economic assistance rendered by the world socialist system to the countries struggling for economic independence strengthen their positions in the face of imperialism and help them to stand up against neocolonialism.

The disintegration of the colonial system inevitably intensifies the economic and political difficulties of the capitalist countries themselves and shakes the foundations of the imperialism as a whole.

The collapse of the system of colonial slavery under the impact of the national liberation movement is *second in historical importance* only to the formation of the world socialist system.

## Intensification of market problems. Chronic unemployment and underloading of enterprises

One of the characteristic features of the general crisis of capitalism is an *intensification of the problem of markets and investment spheres*. This intensification is engendered primarily by the growing disparity between the rise in production and the absorptive capacity of markets. The withdrawal of Russia from the capitalist system during the first stage of the general crisis of capitalism stepped up the struggle between the capitalist countries for markets and investment spheres. At the second stage of the crisis, the formation of the world socialist system deprived capitalism of still more huge markets and investment spheres.

The formation of the world socialist economic system led to the formation of the world socialist market. Now there are two opposing world markets: that of the socialist countries and that of the capitalist ones.

The narrowing of the sphere of capitalist exploitation, the initiation of the disintegration of the imperialist colonial system, the deterioration in the condition of the working masses and militarisation of the economy have deepened the contradictions of the world capitalist market considerably.

The struggle for markets was also heightened by competition on the part of the capitalism developing in the underdeveloped countries, which are increasingly beginning to compete with the industrially advanced capitalist countries in selling their commodities, especially manufactured goods of the light industry.

The struggle for sales markets and investment spheres leads to conflicts between monopolistic associations of capitalists and between imperialist states. The growing problem of markets and investment spheres is closely linked with the *chronic underloading of industrial enterprises and constant mass unemployment*.

Under premonopoly capitalism, massive underloading of industrial enterprises only occurred during economic crises. Nowadays, during the general crisis of capitalism, it is becoming a constant phenomenon, i.e., it is becoming chron-

ic. During the boom of 1925-1929, for instance, the productive capacity of the US manufacturing industry was only 80 per cent used, and between 1930 and 1934—only 60 per cent. At the end of 1957, only 78 per cent of productive capacity was in use. Taking 1967 as 100, from 1970 to 1973 the loading of capacity in the USA varied between 75 and 83 per cent.

Corresponding to the chronic underloading of industrial enterprises is the new type of unemployment encountered during the general crisis of capitalism. Previously, the army of the unemployed increased during economic crises, but was largely reemployed during periods of revival and boom. During the general crisis of capitalism, however, unemployment is becoming constant, chronic and mass in scale. In 1980 unemployment among the economically active population stood at 8.5 per cent in Britain, 7.0 per cent in Italy, 7.5 in the USA, 3.5 in the FRG and 1.9 in Japan.

In many countries, mass unemployment has become a genuine national disaster. In the developed capitalist countries of North America and Western Europe, as well as in Japan and Australia, in 1980, 19 million of the 125 million-strong industrial proletariat were completely without jobs. This means that, on average, one in nine people were out of work. In the developing countries imperialism has left unemployment alongside a legacy of other problems.

## Changes in the capitalist cycle

Let us recall that the term "cycle" is used to cover the period from the beginning of one economic crisis to the beginning of the next. The cycle consists of four phases: crisis, depression, revival and boom.

During the general crisis of capitalism changes take place in the capitalist cycle, too: shortening of the cycle and a consequent increase in the frequency of crises. Thus, before the First World War, economic crises occurred every 8 to 12 years. In the interwar period (1919-1938) there were three crises, i.e., one every 6-7 years. At the same time the phases of crisis and depression became longer, while the boom became increasingly unstable. Previously crises had lasted from eighteen months to two years, but the Great Depression lasted from 1929 to 1933. After the

Second World War, in contrast, crises became less serious and shorter, though far more frequent.

Let us take as an example the USA—a country that accounts for nearly a half of the industrial output of the capitalist world. By the end of 1948 the USA was already suffering from a postwar economic crisis that ran deeper throughout 1949. In the second half of 1953 the USA saw the beginning of a new economic crisis, which led to a cut in the volume of industrial production and orders, to a rise in unemployment and increase in stocks of commodities in warehouses. The crisis lasted throughout 1954. In mid-1957 yet another crisis of overproduction began to develop in the USA, and gained particular momentum in 1958. The economic crisis in the USA also spread to other capitalist countries. The 1957-1958 crisis did not clear the ground for a protracted boom in American industry. Hardly two years passed before, in 1960, the USA began once more to drop into economic crisis. This crisis lasted into 1961.

In 1965 and 1966, a number of capitalist countries that had managed to avoid partial cyclical fluctuations were seized by an overproduction crisis that appeared first in Italy, France and Japan. The FRG was affected particularly seriously by the crisis. The economic crisis that began at this time in the USA was halted by the escalation of the war in Vietnam, but the war could not prevent the onset of another crisis, which came into full force in the USA at the end of 1969.

The economic crisis of 1969-1971 affected other capitalist countries, too: Italy, Canada, Sweden, Finland and Austria. The FRG and Japan also suffered from stagnation or a slow-down of industrial production.

At the end of 1973 the developed capitalist countries were confronted with serious economic difficulties as a consequence of the energy and raw material crises, as well as the sharp intensification of inflationary processes. The boom phase was cut short.

In 1974 the capitalist countries suffered serious social disturbances and a steep drop in business activity, which developed by the end of the year into an economic crisis enveloping the entire capitalist system. The rates of economic growth were falling sharply throughout the year and the world-wide crises broke out in the motor and textile industries; the volume of housing construction was curtailed everywhere; the fuel and raw material crisis grew deep-



er still; a foodstuffs crisis and hunger began in many regions of Asia and Africa; inflation and monetary disturbances reached unprecedented levels; a growth of the army of the unemployed and a deterioration of the material condition of the working people entailed a sharp intensification of class conflicts between labour and capital; interimperialist contradictions grew in the sphere of foreign economic relations and protectionism increased. This is a far from complete list of all the processes and phenomena shaking the capitalist economy. The overproduction crisis of 1974-1975 set in, revealing contradictions in the development of the entire system of state monopoly capitalism, which had been accumulating over a protracted period of time.

This crisis was particularly serious because it set in simultaneously in all the developed capitalist countries. In its depth and force it was comparable with the Great Depression.

The crisis was special in that it intertwined with a number of crises in other spheres of the world capitalist economy: energy, ecological and food crises. These structural crises in turn exacerbated the cyclical economic crisis of overproduction and made recovery from it more difficult.

The crisis of 1974-1975 developed during a monetary crisis and extreme disturbance of the capitalist countries' credit and monetary system. Inflation got out of control, making the crisis more protracted.

During the 1974-1975 crisis, the industrial production of the developed capitalist countries dropped by 8.5 per cent in 1975, while gross investment in expansion and modernisation of fixed assets fell by 10.5 per cent and housing construction by 16.1 per cent. The productive capacity of these countries was running at only 70-72 per cent, and in the USA at 64 per cent.

The cut in production and underloading of productive capacity were a heavy burden on the working people and entailed a catastrophic rise in unemployment.

Thus, the economies of the developed capitalist countries have suffered several economic crises in the postwar period, and the usual course of the cycle has been upset. Some phases of the cycle have disappeared. For instance, the transition from crisis to revival often takes place without any depression phase, and the revival often leads not to a boom, but straight into a new crisis. Moreover, the

transition to crisis has occurred in several instances not suddenly but gradually, over a protracted period of precrisis stagnation. The crisis develops more slowly than it used to. The serious stock exchange and bank collapses of the past no longer occur. The postwar crises themselves have been of shorter duration.

The main reason for these changes in the capitalist cycle since the last war is that the capitalist system has entered a period of chronic stagnation and decline in individual industries and even whole countries, and that there has been a general slowdown in growth rates.

There are also other factors accounting for the changes in the postwar capitalist cycle.

First, state monopoly capitalism exerts a certain influence on the course of the cycle. State intervention in economic relations (the system of state purchases of industrial and agricultural output, state subsidies and credits to monopolies, etc.) in the interests of the monopolies has accounted for a certain rise in production and renewal of fixed capital. The monopoly bourgeoisie tries, by means of state regulation, to weaken the destructive force of economic crises, but state monopoly capitalism, while operating on the capitalist cycle, cannot abolish economic crises of overproduction.

Second, the economy is militarised, and this influences the course of the capitalist cycle in a twofold and contradictory manner. On the one hand, militarisation gives rise to a temporary boom in industries connected with arms production; on the other, it entails a further intensification of all the contradictions of capitalist reproduction and creates the preconditions for a deeper crisis.

Third, the course of the cycle is also affected by scientific and technical progress. This means that fixed capital rapidly becomes obsolete, so, although investment drops during crises, it remains comparatively high, and the cycle therefore develops somewhat differently than in the past.

Fourth, there has been a considerable increase in the influence of the class struggle on the cycle in the capitalist countries. The greater the successes scored by the workers in the class struggle, the more the bourgeoisie is forced to make economic concessions. This helps to expand the domestic market and, to a certain extent, may serve as a

factor preventing a crisis of overproduction from becoming too serious.

Fifth, the disintegration of the colonial system also affects the capitalist cycle. This is seen in the way the countries that have gained political independence continue to struggle for economic independence, their path to economic independence lying through industrialisation. In this connection, recent decades have seen a substantial rise in the developing countries' purchases of equipment from the developed capitalist ones. This new factor helps to intensify the industrial boom in the developed countries, but it is, at the same time, unstable, since the developing countries' purchases of equipment are subject to fluctuations connected with currency shortages due to the constant drop in their exports. Such are some of the factors affecting the course of the capitalist cycle at the present time.

The chronic underloading of industrial enterprises, the constant mass unemployment, and the increasingly frequent economic crises testify that modern capitalism cannot use all the powerful productive forces at its disposal. It has become a major brake on the development of mankind.

### The development of crises in the world capitalist economy

In recent years the deepening of the general crisis of capitalism has become prominent in various spheres of the world capitalist system. Alongside the economic crises of overproduction discussed above, the world capitalist economy is at present suffering from monetary, energy, food, ecological and other crises.

*The crisis of the monetary system* of imperialism developed at the end of the 1960s, but there was a build-up to it over several decades. In 1944 American imperialist circles managed, owing to the USA's dominant position in the world capitalist economy, to get the currencies of the other capitalist states subordinated to the American dollar. According to the Bretton Woods Agreement, the dollar was equated in value to gold and became a measure of value for the other capitalist currencies, i.e., it was recognised as the central reserve currency. Its privileged position was also consolidated by the fact that it remained the only currency still on a fixed gold standard. All the

other member countries of the International Monetary Fund were obliged to set their exchange rates in terms of dollars. Thus the dollar became the main currency of the capitalist monetary system.

The USA made use of the special position enjoyed by its currency in the capitalist world to pay in dollars for its investments in other countries and for expenditures connected with its aggressive policy. In 1967, however, dollar inflation began, and a huge mass of depreciated dollars accumulated outside the USA. Under these conditions, the biggest capitalist banks stopped changing paper dollars for gold.

In turn, the US government came out with its own programme of extreme measures to save the dollar and strengthen the competitive position of American imperialism in the world capitalist economy. In 1971 the USA stopped exchanging the dollar for gold. In 1971 and 1973 the dollar was devalued. The gold content of currencies was officially abolished in general and a system of floating exchange rates introduced. The Bretton Woods system no longer operated. Officially, the transition to constantly changing market relations between the currencies of the capitalist countries was recognised by the Kingston (Jamaica) agreement of 1976.

The monetary crisis consists in a serious disruption of the domestic credit and monetary systems and international currency and financial relations of the capitalist countries, above all elimination of the gold standard. The monetary crisis is distinguished by inflation, unbalanced and fluctuating balances of payments, a sharp change in the correlation of prices in different countries, unforeseen changes in the correlations between exchange rates, a change in the structure and distribution of currency reserves.

The major capitalist countries continue to seek means to weaken the monetary crisis, but the fundamental reasons for this crisis cannot be eliminated under capitalism.

The main burden of the monetary crisis lies on the working masses. The crisis of the monetary system of imperialism is one clear manifestation of the general crisis of capitalism. It exerts an inverse impact on reproduction, reducing its growth rate, creating an atmosphere of insecurity and disrupting international trade.

The *energy crisis* has caused complicated problems in



the capitalist economy. It first arose in the oil industry, which was dominated by the seven biggest oil monopolies engaged in extracting cheap oil in former colonies and semicolonies. Given the growing demand for oil, they raked in enormous profits. The newly free, oil-exporting, developing countries organised an anti-imperialist cartel and nationalised the property of the oil monopolies. The price of oil began to rise. It became impossible to balance the production and use of energy resources in the capitalist economy. A serious deficit of energy resources arose, yet the oil monopolies still came out on top. It is the working people who suffer additional losses. This crisis further exacerbates imperialism's contradictions.

In recent decades mankind has come up against an *ecological crisis*. The random and plunderous use made of natural resources by capitalism, and the pollution of the environment threatened to make it impossible to replace the natural factors of economic development. Monopoly capital strives to resolve this problem by capitalist means: extracting raw materials in backward countries, relocating the most harmful and "dirty" types of production (petrochemical, mining and dressing, etc.) to the territories of the developing countries, and to turn measures to protect the environment into a source of profit.

The interweaving of the diverse crises affecting the capitalist economy testifies to a further deepening of the general crisis of capitalism. All this shows that the economic and social structure of capitalist society conflicts increasingly with the demands made by the working people and the broad population, as well as with the requirements of social progress, and further democratic and political development.

### The intensification of the contradictions between the interests of the monopolies and the nation as a whole

Under contemporary conditions in the imperialist countries, the interests of the monopoly bourgeoisie conflict irreconcilably with national interests.

In the middle of the 20th century, the main changes in the ruling class—the bourgeoisie—were seen in a further

stratification within it, an increase in the might and influence of the monopoly bourgeoisie, together with a drop in its share of the employed and the whole population of the capitalist countries. At the same time, the strength and domination of the monopoly bourgeoisie in the capitalist countries increased manifold. This social group concentrated all economic and state power in its own hands and became the chief enemy of the bulk of these countries' populations.

Having taken over the key positions in the economy of the capitalist world, the monopoly bourgeoisie determines the imperialist powers' policies.

The other pole of capitalist society consists of a growing army of wage workers, the main part of which is comprised by the proletariat. As capital grew, so did the strength, might and mass scale of wage labour. In mid-century, the share of wage workers in the developed capitalist countries was 70 to 90 per cent of the active population, and about a third of that in the developing countries of Asia, Africa and Latin America.

The chief part of the army of wage labour is the working class, which acts as the decisive force in the revolutionary transformation of the world, and personifies contemporary social progress. The numbers and share of the urban industrial proletariat have grown within the working class, accompanied by a drop in the share of the rural proletariat; there has been a substantial rise in the share of skilled workers; the socio-political role of the working class has increased, along with the consciousness and organisation of the proletariat; the working class has expanded and consolidated its links with the masses of the toiling peasantry, craftsmen, office workers and intellectuals.

The exploitation of the working class is currently being stepped up, this being furthered by the monopolies using the achievements of scientific and technical progress in their own interests. Labour intensity, industrial injury, the cost of living, taxes and inflation are all growing. The material situation of the working people is becoming extremely unstable.

Changes have occurred, too, in the middle strata of the population of the capitalist countries, including the petty bourgeoisie, intellectuals and office workers.

The petty and middle bourgeoisie of town and country—

side, above all the peasantry, is ruined as capitalism develops and its numbers and share in the population of capitalist countries gradually fall. The bulk of the ruined small producers in town and village swell the ranks of the working class, as well as office workers and intellectuals. This results in the interests of the monopolies coming into conflict not only with those of the working class, but also those of the non-monopolistic petty and middle bourgeoisie. Monopoly capitalists, together with the state, use tax, credit, tariff and price policy to redistribute surplus value in their own interests, depriving the small and middle capitalists of profits and bringing them to ruin. This is why not only the working class, but also the peasantry, petty and middle bourgeoisie of town and countryside have a vested interest in abolishing the domination of the monopolies.

The numbers and share of intellectuals and office workers have increased substantially in the social structure of the capitalist countries. Many intellectuals and office workers are similar to wage workers in their living and material conditions, and outlook. This creates the objective preconditions necessary for consolidating the union between mental and manual workers, for organising joint activities by them against monopoly capital. The contemporary scientific and technological revolution has speeded up the stratification of the intelligentsia, turning most intellectuals into wage workers subject to refined exploitation and with interests and conditions similar to the working class. The main advantages to be gained from applying modern productive forces and the achievements of the scientific and technological revolution are reaped by the financial oligarchy.

Favourable conditions are created for rallying all these forces. This unification of all the nation's forces against the rule of the monopolies can be achieved under modern conditions on the basis of a struggle for peace and national independence. In order that the whole economy might be used to satisfy the needs of the working people, of the whole population, it is essential to defend democracy, nationalise the key industries and ensure their democratic management.

The growing exploitation of the working people exacerbates the class struggle and intensifies the social battles in capitalist society. The range of socio-economic and political

demands made by the working people becomes broader. More and more often their demonstrations become political in character. An anti-monopolistic front is created that unites broad strata of the population. The role of vanguard in the struggle against rule of the monopolies is played by Marxist-Leninist fraternal Communist and workers' parties, which strive to unify the broadest masses and direct them in this struggle.

The formation of the world socialist system and its successes in building socialism and communism constitute a powerful support for the revolutionary movement of the working class in the developed capitalist countries and for the national liberation movement waged by colonial and dependent peoples. The contemporary revolutionary movement directs its main blows against the monopolies, for it is they that are the chief exploiters of all strata of the working people and that inspire the aggressive policies of the modern capitalist states.

### The uneven development of the capitalist countries and the growing contradictions between them

The Second World War led to a further intensification of the uneven development of the capitalist countries. Nazi Germany, Japan and Italy were defeated, and their economies were greatly undermined. France suffered considerable losses under the occupation during the war. Britain was greatly weakened, too. Only the American monopolies actually benefited from the war. In 1948 the USA's share in the total industrial output of the capitalist world was 54.6 per cent, the respective figures for Britain, the FRG, France, Canada, Italy and Japan being 10.2, 3.6, 4.6, 3.0, 2.0 and 1.2 per cent. Since that time major changes have occurred in the balance of power within the capitalist world. They are manifested as follows.

First, the United States of America has lost its absolute supremacy in world capitalist production and trade. Its share in world industrial production fell by 17.3 per cent between 1948 and 1979 to stand at 37.3 per cent. In spite of this, the USA is still the leading power of the capitalist world. It spends twice as much on research as all the countries of Western Europe and Japan together; it holds 90



per cent of the nuclear weapons produced in the capitalist world; 543 of the 1,000 biggest corporations are American.

Second, the countries of Western Europe have gained substantially in strength within the world capitalist economy as a result of their higher economic growth rates. Unified within the Common Market, these countries are increasingly able to stand up to the USA not only economically, but also politically.

Third, the role of Japan has increased in the world capitalist economy, for this country maintained high growth rates of industrial production for a considerable length of time. The Japanese monopolies compete successfully with those of the USA and Western Europe on world markets.

Another major factor exacerbating interimperialist contradictions at the current stage is the scientific and technological revolution. The introduction of its achievements quickly changes the balance of power in the capitalist economy. The more recent the scientific and technological innovations capital uses, the more rapidly it strengthens its positions.

The scientific and technological revolution's chief impact on interimperialist relations consists in deepening and expanding the sources of the antagonism between the various imperialist powers.

At present, the centres of interimperialist rivalry are the USA, Western Europe and Japan. The North American centre, headed by the USA, relies on highly automated mass production. The West European centre relies on international production co-operation and specialisation. Japan's ace is rapid development of inventions and discoveries made in other countries.

The contradictions within this triangle have become very heated in all theatres of trade, financial, monetary and patent-pooling policy. At the same time, the contradictions within each of these chief centres are also developing and intensifying.

Interimperialist contradictions are irreconcilable and antagonistic. Lenin himself pointed out that the contradictions in the capitalist camp are not fortuitous and internal dissension, but "a most deep-seated and ineradicable conflict of economic interests among the imperialist countries", and that the alliance of capitalist powers is "an alliance of robbers, each trying to snatch something from

the others".<sup>1</sup> Interimperialist contradictions arise from the main contradiction of capitalism—that between the social character of production and the private capitalist form of appropriation. No agreements, deals, alliances, or compromises can abolish the contradictions between the imperialists.

The basic contradiction of modern times—the *struggle between growing socialism and moribund capitalism*—has a twofold impact on interimperialist relations. On the one hand, it encourages the capitalist countries to unite, serves as a basis for the moulding of military blocs and makes it difficult for military conflicts between the imperialist states to break out. On the other hand, it creates new sources of contradictions and conflicts between the capitalist countries on the fundamental questions of contemporary world development.

Given the growing struggle between the two world systems, in spite of the intensifying contradictions that divide them, the capitalist powers strive to pool their efforts in order to maintain and consolidate the system of exploitation and oppression and win back their lost positions.

Interimperialist contradictions do not have to end in a world war. When capitalism was the dominant force in the world, interimperialist contradictions and any upset of the balance between countries eventually led to world wars. Now that capitalism has lost its monopoly as the only world system and that the world socialist system exists and has become the decisive factor in the development of human society, a new historical situation has taken shape making it possible to unite the forces of the world under the leadership of the world socialist system, to curb the forces of aggression and exclude world wars for ever.

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And so, we have considered the capitalist mode of production based on exploitation of wage labour. Under capitalism, especially at its highest stage of development, all its contradictions are sharpened to the extreme, especially the basic contradiction between the social character of

<sup>1</sup> V. I. Lenin, "The Eighth All-Russia Congress of Soviets", *Collected Works*, Vol. 31, 1974, p. 466; "Speech Delivered at a Conference of Chairmen of Uyezd, Volost and Village Executive Committees of Moscow Gubernia", *Collected Works*, Vol. 31, p. 323.

production and the private capitalist form of appropriation. The deepening of these contradictions brings the capitalist world to new economic and social upheavals, and ultimately to the replacement of capitalism by socialism through revolution.

Contemporary reality provides the best confirmation of the conclusion that Marx drew over a hundred years ago—that capitalism is a historically doomed mode of production.

## REVISION EXERCISES

1. What is the place of imperialism in history?
2. What is the essence of state monopoly capitalism and its forms?
3. What is the essence of the law of the uneven economic and political development of capitalism in the age of imperialism? What did Lenin teach concerning the possibility of socialism triumphing in one country?
4. What are the essence and stages of the general crisis of capitalism?
5. What are the characteristics of the general crisis of capitalism?
6. How does the disintegration of the colonial system of imperialism reveal itself? What is the essence of neocolonialism?
7. What is the essence of intensification of the problem of markets and investment spheres during the general crisis of capitalism?
8. Describe the chronic underloading of industrial capacity and constant unemployment during the general crisis of capitalism.
9. What changes have taken place in the capitalist cycle and why?
10. Describe the monetary, energy and ecological crises of capitalism.
11. What factors are intensifying the exploitation of the working people in the capitalist countries at the present time?
12. Describe the contradictions between the capitalist countries in the world today.

## THE COMMUNIST MODE OF PRODUCTION

### SOCIALISM—THE FIRST PHASE OF THE COMMUNIST MODE OF PRODUCTION

From generation to generation, working people have dreamed of a happy life, free from slave labour for exploiters. But this dream was not to come true for a long time. People did not know the way to liberation. The great leaders of the working class—Marx, Engels and Lenin—showed them the way to a bright future for mankind—to communism.

Communism fulfils the historic mission of freeing all people from social inequality, from all forms of oppression and exploitation, from the horrors of war, and establishes peace, labour, freedom, equality, fraternity and happiness for all people on Earth.

Communist society passes through two stages in its development: the first, called *socialism*, and the second, higher stage, called *communism*.

The ultimate goal of the working people's liberation struggle in all countries is to build communism. "As we begin socialist reforms," Lenin wrote, "we must have a clear conception of the goal towards which these reforms are in the final analysis directed, that is, the creation of a communist society."<sup>1</sup>

Marxism-Leninism has proved scientifically that the communist socio-economic formation, which replaces capitalism, will not appear all at once in its final form.

<sup>1</sup> V. I. Lenin, "Extraordinary Seventh Congress of the R.C.P.(B.)", *Collected Works*, Vol. 27, 1965, p. 127.



Communist society cannot be built immediately after the working class has seized political power. The building of communism requires considerable time and hard work by the working class, peasantry and intelligentsia.

Society cannot transfer to communism directly from capitalism. It makes the transition from capitalism to socialism as a result of a resolute struggle, and only then can socialism develop into communism.

Describing the two phases of the communist socio-economic formation in his work *A Critique of the Gotha Programme*, Marx wrote that socialism and communism constitute different stages in the economic maturity of one and the same mode of production. Taking socialism as the first phase of communism, Marx showed that, at this stage we are not dealing with a communist society that has developed on its own basis, but with one that is only just emerging out of capitalism and one that, for this reason in every respect—economically, morally and intellectually—still retains blemishes left by the old society. Lenin noted that “the only scientific distinction between socialism and communism is that the first term implies the first stage of the new society arising out of capitalism, while the second implies the next and higher stage”.<sup>1</sup>

The development of socialism leads to the second, higher phase—that of communism. Thus, socialism and communism are two stages or phases of one and the same communist society.

<sup>1</sup> V. I. Lenin, “A Great Beginning”, *Collected Works*, Vol. 29, p. 420.

## Chapter IX

# THE RISE AND ESTABLISHMENT OF SOCIALISM

## 1. MARXISM-LENINISM ON THE TRANSITION PERIOD FROM CAPITALISM TO SOCIALISM

### The revolutionary transition from capitalism to socialism

By studying the course of economic development of society, the classics of Marxism-Leninism discovered the laws governing the emergence, development and collapse of capitalism.

The victory of the Great October Socialist Revolution in Russia in 1917 ushered in a new era in the development of human society and showed that capitalism had outlived itself, that capitalist relations of production had become a major brake on the development of the productive forces. A new society known as socialism was built for the first time ever, in the Union of Soviet Socialist Republics.

As a result of the defeat of Nazi Germany and militarist Japan during the Second World War, a decisive contribution to which was made by the Soviet Union, and of the victories of socialist revolutions, the peoples of several other countries set out to build socialism. The socialist revolutions in the countries of Europe and Asia and in Cuba struck a major blow to the positions of world capitalism. They were the most important events in world history to follow the October Revolution in Russia.

Capitalism must inevitably give way to the new society—socialism. This replacement of capitalism by socialism cannot, however, take place spontaneously. The only way that an end can be put to the bourgeois system is a resolute, nation-wide struggle, a proletarian revolution that deprives the capitalists and their lackeys of their power and the opportunity to oppress and exploit the people.

Marx wrote: "*Socialism cannot be realised without revolution. It needs this political act insofar as it needs destruction and dissolution.*"<sup>1</sup> Revolution is needed in order to eliminate private ownership, i.e., to take all the basic means of production out of the hands of the capitalists and the bourgeois state and transfer them to the whole nation, to establish public socialist ownership.

The revolutionary transition from capitalism to socialism can take two courses—a peaceful one or a non-peaceful one.

The *non-peaceful transition* to socialism presupposes an armed uprising, civil war, enforced seizure of the political power from the bourgeoisie. The working class and its communist vanguard strive to accomplish the socialist revolution without revolutionary coercion. This is in the interests of the working class and the whole nation. When, however, the exploiting classes resort to force against the people, the only possible answer is force, an armed struggle. Leninism teaches and historical experience confirms that the dominant classes do not give up their power and economic dominion voluntarily. The socialist revolution thus develops in peaceful or non-peaceful forms, depending on the balance of class forces in the given country, the degree of organisation and political maturity of the working class, the authority and ability of its vanguard, the degree of resistance put up by the ruling classes and the international situation.

The *peaceful method* of socialist revolution presupposes that the working class takes over state power without a civil war. By uniting the overwhelming majority of the population under its leadership, the working class can win a firm majority in parliament and turn it from a weapon serving the class interests of the bourgeoisie into one serving the working people. Such a parliament is capable of fulfilling the tasks involved in a socialist revolution. All this is possible through the broad and uninterrupted development of the class struggle by the workers and the entire working people against the big monopoly bourgeoisie and reactionaries for deep social reforms, peace and socialism.

<sup>1</sup> K. Marx, "Critical Marginal Notes on the Article 'The King of Prussia and Social Reform. By a Prussian'", Karl Marx and Frederick Engels, *Collected Works*, Vol. 3, p. 206.

This is facilitated by the existence of the steadily growing world socialist system, which becomes the decisive factor in the development of human society; by the weakening of the world capitalist system, the contradictions of which have become unprecedentedly sharp; by the collapse of the colonial system of imperialism; by the increasing organisation and class consciousness of the working class in the capitalist countries; and by the growing prestige of the Communist and workers' parties.

It is quite possible, given the accelerating growth of the forces of socialism, the strengthening of the labour movement and weakening of the positions of imperialism, that in some countries, as Marx and Lenin foresaw, it will be profitable for the bourgeoisie to agree to having its basic means of production bought up and for the proletariat to buy them out.

The type of socialist revolution that is realistic in each individual country is determined by the specific historical conditions obtaining there. The success of the revolution depends on whether the working class and its party are in a position to wage all forms of struggle, both peaceful and otherwise, and are prepared to replace one with another at a moment's notice.

Under modern conditions, thanks to the support provided by the socialist countries, a socialist revolution is possible in an economically backward country, too. Relying on the support of the developed socialist countries, the economically backward ones can go over to socialism, bypassing the capitalist stage of development.

Irrespective of how it is accomplished, by peaceful or non-peaceful means, a socialist revolution always constitutes a fundamental break-up of the outdated capitalist relations and the establishment of new, socialist ones. These transformations are implemented by the power of the working class in the interests of the whole nation.

### The need for a transition period

The age of the revolutionary transformation of capitalist society into a socialist one is a transition period. The transition period from capitalism to socialism is necessary because the relations of production of socialism and socialist property cannot emerge within the capitalist system.



Under capitalism, it is only the preconditions for socialism that emerge.

The preconditions consist in capitalism creating large-scale machine industry, which is a material premise for socialism, and taking the socialisation of production to a high degree. The growth of industrial production and the increase in its scale lead to a rise in the numbers of the working class and to its concentration in large enterprises and industrial centres. The working class becomes an organised social force aware of its class interests and capable of destroying capitalism.

The interests of the working class coincide with those of all the working people and it becomes the leader in the struggle waged by the exploited masses to overthrow capitalism. This is a subjective precondition for socialism emerging within capitalism. By means of revolution, the working class seizes power in order, in alliance with the peasantry and all other working people, to build a new, socialist society.

The period succeeded by the elimination of private ownership of the basic means of production and of exploitation of man by man, by a restructuring of the economy, culture and the state on socialist principles is called the *transition period from capitalism to socialism*. During this period, socialism has not yet been built, but is in the process of being built while capitalism has not yet been abolished, but is being so.

Once the proletariat has taken power and the command posts in the national economy, capitalism is vanquished, but not yet fully destroyed. For some time yet private capitalist enterprises remain in industry, agriculture and commerce. The next task is not only to overcome the resistance put up by the capitalist elements in town and countryside, but also to remove the reasons for it.

A major task of the transition period is to transform small peasant holdings along socialist lines.

During the transition period, the material and technical basis for socialism is created. The transition period is obligatory for every country setting out on a socialist path, be it industrially developed or economically backward, large or small.

The transition period embraces an entire historical epoch, beginning with the victory of the proletarian revolution and establishment of the dictatorship of the proleta-

riat, and ending with the complete building of socialism—the first phase of communist society.

The theory of the period of transition from capitalism to socialism was formulated by Marx, Engels and Lenin, who thereby armed the working class and all working people with a scientific knowledge of the ways to build socialism. The fraternal Communist and workers' parties make a major contribution to the Marxist-Leninist teaching on the transition period.

Between capitalist and communist society, Marx said, there lies a period of revolutionary transformations of the former into the latter. Corresponding to this is a politically transitional period, during which the state has to be a *revolutionary dictatorship of the proletariat*.

### The dictatorship of the proletariat— an instrument for building socialism

The dictatorship of the proletariat is necessary because only the working class is capable of guiding all the working people in the struggle to overthrow capitalist oppression and build a socialist society. *The dictatorship of the proletariat* is state leadership of society by the working class. "The dictatorship of the proletariat," runs the CPSU Programme, "is a dictatorship of the overwhelming majority over the minority; it is directed against the exploiters, against the oppression of peoples and nations, and is aimed at abolishing all exploitation of man by man. The dictatorship of the proletariat expresses not only the interests of the working class, but also those of all working people."<sup>1</sup> The working class uses state power in the interests of all the exploited masses. The joint struggle waged by the working class and the peasantry to oppose the exploiters and build socialism unifies them in an unbreakable alliance. The firm union of the working class with the toiling peasantry is a supreme principle of the dictatorship of the proletariat.

The dictatorship of the proletariat means direct and active participation by the broad masses of the working people in the management of production, in the work of state organs and in the running of all sectors of the social and cultural life of society.

<sup>1</sup> *The Road to Communism*, p. 487.

The dictatorship of the proletariat as a political superstructure engendered by a socialist revolution sets itself the task of breaking up the old state machine of suppression of the people. The proletariat uses state power to eliminate the economic rule of the bourgeoisie and all exploitation of man by man.

The dictatorship of the proletariat does not mean just coercion, however; nor is this its predominant feature. The essence of the dictatorship of the proletariat is not coercion but constructive work, the building of a socialist society, its defence against the enemies of socialism. The proletariat uses force owing to the objective conditions—resistance put up by the bourgeoisie.

The dictatorship of the proletariat is an instrument for building socialist society. The proletarian state bends its efforts to creating a socialist economy. As a result of the state's activities in the economic sphere, there emerges a new system of relations of production based on public, socialist ownership of the means of production, which ensures the joining of the actual producers with the means of production, comradely co-operation and socialist mutual assistance between people free from exploitation.

The Communist and workers' parties—the vanguard of the working people in the struggle to build socialism and communism—are the leading and guiding force of the dictatorship of the proletariat.

Marxism-Leninism teaches that the transition from capitalism to socialism is responsible for a multitude of diverse political forms, but they are essentially the same in that they are all forms of the dictatorship of the proletariat.

The existence of different forms of the dictatorship of the proletariat is a historical law of social development that Lenin foresaw. "The transition from capitalism to communism is certainly bound to yield a tremendous abundance and variety of political forms," he wrote, "but the essence will inevitably be the same: the *dictatorship of the proletariat*."<sup>1</sup>

In the USSR, as a result of the victory of the October Revolution, a dictatorship of the proletariat in the form of Soviets was established. The power of Soviets as a state

<sup>1</sup> V. I. Lenin, "The State and Revolution", *Collected Works*, Vol. 25, 1977, p. 448.

form of the dictatorship of the proletariat was discovered by Lenin from his studies of the Paris Commune and the two Russian revolutions in 1905 and February 1917.

Under the new historical conditions that took shape after the triumph of socialism in the USSR and the defeat of fascism during the Second World War, a people's democratic system triumphed in a number of countries. People's democracy is a form of political organisation of society that is, in essence, a dictatorship of the proletariat. It reflects the differences in the development of the socialist revolution under the conditions of weakened imperialism and a change in the balance of power in favour of socialism. It also reflects the historical and national conditions obtaining in individual countries.

The dictatorship of the proletariat engendered by the socialist revolution ensures the victory of socialism, but it undergoes changes itself as socialism develops. When the exploiting classes are eliminated, the function of putting down their resistance dies out. During the building of socialism, the economic, organisational, cultural and educational functions of the dictatorship of the proletariat are comprehensively developed. By ensuring the final and complete victory of socialism, the dictatorship of the proletariat fulfils its historical mission and, from the point of view of the tasks of internal development, ceases to be necessary. The state that arose as a dictatorship of the proletariat becomes a state of the whole people, an organ expressing the interests and will of the entire people.

The socialist state of the whole people continues where the dictatorship of the proletariat began in building the new society and serves as the organising foundation for fulfilling the tasks of communist construction.

### The chief laws of socialist revolution and socialist construction

The transition from capitalism to socialism is governed by laws common to all countries that set out to build socialism. These are: (a) conquest of political power by the working class and establishment of a dictatorship of the proletariat—democracy for the working people under the leadership of a Marxist-Leninist party; (b) a union of the working class and the bulk of the peasantry and all other strata of the working people; (c) elimination of capitalist



property and establishment of public ownership of the means of production; (d) a gradual socialist transformation of agriculture on the basis of co-operation; (e) planned, balanced development of the national economy geared to building socialism and communism and raising the working people's standard of living; (f) a socialist revolution in the spheres of ideology and culture and the creation of a numerous intelligentsia, devoted to the working class and the working people, as well as the cause of socialism; (g) elimination of national oppression and establishment of equality of rights and fraternal friendship between nations; (h) consolidation and development of the socialist state, defence of the gains of socialism against attacks by external and internal enemies; (i) solidarity of the working class of a given country with that of other countries, i.e., proletarian internationalism.

The chief laws governing socialist revolution and socialist construction show that, in any country, in the course of the socialist revolution mainly one and the same task is fulfilled—that of abolishing capitalist rule and of building socialism.

The Marxist-Leninist proposition on the chief laws of development of socialist revolution and socialist construction provides the basis for the policy of the Communist and workers' parties of the socialist countries. This ensures the successful building of a socialist society.

At the same time, the forms and methods of building socialism may be different, depending on the specific historical conditions in each individual country. Although there are main lines common to all countries, the diversity of historically shaped national specifics and traditions engenders certain particular conditions for the development of the socialist revolution and the building of socialism.

"All nations will arrive at socialism," Lenin pointed out, "this is inevitable, but all will do so in not exactly the same way, each will contribute something of its own to some form of democracy, to some variety of the dictatorship of the proletariat, to the varying rate of socialist transformations in the different aspects of social life."<sup>1</sup>

But these specifics in no way change the essence of the main lines along which socialist revolution and socialist

construction develop. Differences in the practice of building socialism may appear, for instance, in the forms of the dictatorship of the proletariat, the forms of management of production, the various forms of co-operation in agriculture; but the dictatorship of the proletariat, the abolition of private ownership of the means of production, the co-operation of the peasantry and so on, together constitute the common factors without which the socialist system cannot develop.

Any departure from the chief laws governing socialist revolution and socialist construction, nationalism or over-estimation of national specifics are detrimental to the building of socialism.

## 2. THE ECONOMY DURING THE TRANSITION PERIOD

The economy during the period of transition from capitalism to socialism is multistructural, i.e., it consists of several economic structures.

*Economic structures* are various types of social economy based on different forms of ownership of the means of production and corresponding relations of production; they are characteristic of a given country at a certain historical stage in its development.

The economic structures within the national economy of a country during the transition period may be different, owing to the specific historical situation in the country that has set out to build socialism. But there are three basic structures common to all countries entering the period of transition from capitalism to socialism: socialist, small commodity and capitalist.

### The socialist structure

The socialist structure in a national economy is created by socialisation of the means of production.

The first and most important step made by the proletarian authorities in this direction is to take the commanding positions in the economy through socialist nationalisation.

*Socialist nationalisation* is the revolutionary confiscation

<sup>1</sup> V. I. Lenin, "A Caricature of Marxism", *Collected Works*, Vol. 23, 1977, pp. 69-70.

by the proletarian state of the means of production belonging to the exploiting classes and their transformation into state, socialist property (national wealth). All the wealth of the class of capitalists was created by many generations of the working class, so when the working class takes the means of production from the capitalists during the socialist revolution, it is restoring historical justice and carrying out a just act. Everything created by the people must belong to the people.

As a result of the socialist nationalisation of the means of production, the basic contradiction of capitalism—that between the social character of production and the private capitalist form of appropriation—is abolished. Nationalisation makes the relations of production correspond to the productive forces and removes the obstacles to their development.

Nationalisation of the means of production destroys the economic domination of the bourgeoisie. The transfer of the means of production into the hands of the working people makes them the masters of the country, society's dominant economic force.

The first to be nationalised are big industry, the banks, railway transport, the merchant marine and means of communications, large-scale trading establishments, and the land, either fully or partially.

Depending on the forms of the class struggle and how fierce it is, nationalisation during the transition period has its own specific features in each individual country. In the USSR, for instance, where the bourgeoisie waged an armed struggle, organised plots against the Soviet authorities and did as much harm as it possibly could, nationalisation was carried out without any compensation being paid to the former owners. In a number of European socialist countries, nationalisation of the basic means of production in industry, transport, communications and of the banks was carried out with small and medium entrepreneurs being paid a certain amount of compensation for their enterprises, including those belonging to capitalists from the Allied countries during the Second World War. Enterprises belonging to German and Italian capitalists and local collaborators with the Nazis were nationalised without any compensation.

As a result of the nationalisation of the means of production and the implementation of a number of other meas-

ures, the socialist state creates a new structure of the national economy, one that had not existed before—the *socialist structure*. This embraces plants, factories, banks, transport, state farms, trading organisations and co-operative associations—supply, credit, consumer and production co-operatives. The formation of the socialist structure of the national economy initiates the people's tremendous creative work in laying the foundations of the socialist economies.

The socialist structure plays the leading role in the economy of the transition period because it unites the key sectors of the national economy and has the most up-to-date and sophisticated technology. This structure constitutes the most progressive type of relations of production.

In socialist enterprises there is no exploitation of man by man, worker's labour power ceases to be a commodity, since he works for himself and for his own society. The output of the socialist structure is distributed among all the working people.

The emergence of the socialist structure, with the domination of socialised socialist ownership of the means of production thus gives rise to new economic conditions, which provide the basis on which the new economic laws, the economic laws of socialism, emerge, develop and gradually expand their sphere of operation. The economic laws of capitalism gradually lose their force and ultimately cease to operate.

### Small commodity and capitalist structures

The *small commodity structure* embraces peasant holdings and the economies of craftsmen and homeworkers, based on private ownership of the means of production and personal labour. They are connected to a greater or lesser degree with the market. Small commodity production is based on private ownership of the means of production, and this it has in common with capitalist production. On the other hand, the small peasants have a vested interest in all forms of exploitation being eliminated, a desire the toiling peasantry shares with the proletariat.

At the beginning of the transition period, the small commodity structure covers the majority of the population in



many socialist countries, but as socialism develops, it is transformed into socialist production by means of co-operation.

The *capitalist structure* embraces economies based on private ownership of the means of production and wage labour. It is represented by rich peasants in the countryside, the owners of non-nationalised, usually small or medium-sized capitalist enterprises in the towns. Here there is exploitation and labour power is a commodity. The surplus value is appropriated by the owners of the means of production.

Initially, the socialist state restricts the capitalist structure, particularly the exploitation of labour power, and subsequently pursues a policy of abolishing it altogether.

The socialist, small commodity and capitalist structures are the main ones in the economy of the transition period. In addition to these, however, there also exist the subsistence peasant economy (patriarchal) and state capitalism, their presence depending on the economic conditions in the given country during the transition period. They do not necessarily exist in every country setting out to build socialism.

In the USSR, for example, during the transition period there existed the patriarchal peasant economy and also state capitalism in the form of concessions granted by the Soviet authorities to foreign capitalists, and in several other forms. Yet in the economy of the USSR state capitalism did not develop broadly at all.

The task of the transition period consists in ensuring the undivided sway of socialist relations of production and laying the foundations for socialism. For this purpose it is necessary, while developing the socialist structure as far as possible, to eliminate completely the capitalist one and to transform the small commodity structure into the socialist form of economy.

### Classes in the transition period

There are certain classes corresponding to the various economic structures during the transition period.

The socialist structure is represented by the working class and the peasantry, united in co-operative enterprises.

The small commodity structure involves small and me-

dium peasants in the countryside, craftsmen and artisans in the towns.

The capitalist structure is represented by the bourgeoisie in the town and rich peasants in the countryside.

The position of the classes during the transition period changes fundamentally compared with their position under capitalism.

The *working class*, which was an oppressed and exploited class under capitalism, plays the leading role in society once the dictatorship of the proletariat has been established. It becomes the ruling class, holding state power and owning, jointly with all the other working people, the socialised means of production.

The *peasantry* is liberated from dependence on big landowners, receives from the socialist state land, protection from exploitation by rich peasants, and help in co-operating.

In its policy in relation to the peasantry during the transition period, the socialist state is governed by the Leninist formula of an alliance with the middle peasant, reliance on the poor and struggle against the rich peasant. The pursuance of this policy results in the bulk of the peasants becoming allies of the working class in the building of socialism.

The working class and peasantry are the chief classes of the transition period. In addition to the peasantry, the working class rallies round itself all the other strata of the working people—working intellectuals, craftsmen and artisans in the towns.

The *bourgeoisie* loses power and the basic means of production, so ceases to be the dominant class during the transition period. But it remains strong for many years. This is because small commodity production spontaneously gives birth to capitalism on a mass scale. Moreover, even after losing its dominance, the bourgeoisie still enjoys the support of international capital.

### The contradictions of the transition period

The multistructured economy of the transition period and the existence of hostile classes give rise to contradictions. The socialist structure during the transition period

is not yet all-embracing: it does not cover all sectors of the economy, especially agriculture. Capitalism still exists and wages a struggle against socialism, so Lenin pointed out that the period of transition from capitalism to socialism "has to be a period of struggle between dying capitalism and nascent communism—or, in other words, between capitalism which has been defeated but not destroyed and communism which has been born but is still very feeble".<sup>1</sup>

The contradiction between socialism and capitalism is the basic contradiction of the transition period. Who will ultimately triumph is decided in the course of a fierce class struggle. The outcome of this struggle depends on which of the contestants manages to draw the peasantry along with it.

The correct policy pursued by Communist and workers' parties, a policy of a firm economic and political union of the working class and peasantry, allows the proletariat to draw the toiling peasantry along with it. This decides the outcome of the struggle between socialism and capitalism in favour of socialism.

There are also other contradictions during the transition period. For instance, in some countries there exists a contradiction between the advanced political system and the technological and economic backwardness of the country. This contradiction existed in the transition period in the USSR. It was characteristic to some extent of the majority of the other socialist countries. During the transition period there is a contradiction between large-scale, integrated socialist industry and small-scale, scattered, privately owned peasant farms.

All these contradictions of the transition period are resolved by implementation of the proletarian state's policy.

### 3. ECONOMIC POLICY DURING THE TRANSITION PERIOD. LENIN'S PLAN FOR BUILDING SOCIALISM

In order to build socialism, a corresponding *economic policy*, i.e., a totality of measures aimed at eliminating capitalist elements and ensuring the victory of socialism

<sup>1</sup> V. I. Lenin, "Economics and Politics in the Era of the Dictatorship of the Proletariat", *Collected Works*, Vol. 30, 1977, p. 107.

must be elaborated and implemented by the proletarian state.

The economic policy during the transition period is geared to consolidating the union of the working class and peasantry and the dictatorship of the proletariat, to developing the country's productive forces, destroying exploiting classes and building socialism.

The economic policy of each country setting out to build socialism is determined by the state of the economy during the transition period and the balance of class forces. Its chief principles, however, retain their force in all countries building socialism.

The Soviet government began to pursue such a policy in the spring of 1918, but the impact of foreign intervention, the Civil War and destruction made it necessary to go over to the policy of War Communism for some time.

During the period of War Communism the Soviet authorities made everything behind the lines serve the front. All industry, including small and medium-sized, was nationalised and private trading prohibited. In the countryside surplus foodstuffs were requisitioned to supply the army and workers. In view of the difficult conditions pertaining during the Civil War and foreign armed intervention, the Soviet government introduced a system of food rationing and labour conscription. All these measures together were known as War Communism, a necessary temporary policy pursued by the Soviet government and aimed at securing victory under the difficult conditions of the time.

In 1921, as soon as the foreign intervention and Civil War were over, the Soviet authorities went over to the economic policy declared in the spring of 1918. In contrast to War Communism, it was called the *New Economic Policy* (NEP). The transition to NEP was initiated by the replacement of food surplus requisitioning by food taxation, which was less than the amount that had previously been requisitioned. Everything the peasants had left after paying the food tax (in kind) to the state, they could dispose of at will, including by selling it.

The introduction of the food tax and the permission to engage in private trade were necessary in order to provide an economic incentive to the peasants to improve agriculture, in order to restore light and heavy industry and,



once the country had accumulated both the strength and the resources, to mount a decisive offensive against the remaining vestiges of capitalism.

The economic policy of the USSR's transition period was elaborated and implemented in a situation of capitalist encirclement and the building of socialism in a single country. Though this laid a certain imprint on how it was implemented, its main principles are of international significance. At the same time, the specific forms and methods by which the economic policy is implemented during the transition period in different countries have their own distinguishing features owing to the historical conditions under which they develop. The other socialist states are implementing this policy under more favourable conditions. They have the wealth of experience of the Soviet Union to draw on, as well as scientific, technological and economic assistance, and the experience and mutual assistance of the countries of the socialist community.

The economic policy during the transition period was a specific expression of Lenin's plan for building socialism.

Lenin worked out a scientifically substantiated plan for building socialism in the USSR, a plan that envisaged overcoming the country's technological and economic backwardness, implementing socialist industrialisation, a socialist transformation of agriculture and a revolution in the cultural sphere.

## Socialist industrialisation

One of the most important component parts of Lenin's plan for building socialism is *socialist industrialisation*.

Socialism can only be built on the basis of large-scale machine industry in all sectors of the national economy. "A large-scale machine industry," Lenin wrote, "capable of reorganising agriculture is the only material basis that is possible for socialism."<sup>1</sup>

Most countries setting out to build socialism cannot inherit such a developed material and technical basis from capitalism, which, since it came into being, has only man-

<sup>1</sup> V. I. Lenin, "Third Congress of the Communist International", *Collected Works*, Vol. 32, 1977, p. 459.

aged to complete the industrialisation of a small number of countries, in which only about 15 per cent of the world population live. Thus, for the majority of countries beginning to build socialism, industrialisation is vitally necessary.

Socialist industrialisation means a development of large-scale industry to ensure a fundamental restructuring of the entire national economy, including agriculture, on the basis of machine technology.

The central link in socialist industrialisation in the USSR was the priority development of the branches of heavy industry producing means of production: metals, fuel, machinery and equipment, building materials. Of particular importance for industrialisation is the creation of a modern engineering industry.

During socialist industrialisation the material foundations are laid for the development of socialist forms of economy—public and co-operative enterprises in industry and agriculture. Industrialisation gives these forms of economy the technological supremacy they need in order to achieve a final victory over capitalist and small commodity production.

The implementation of socialist industrialisation is the key to fulfilling all the other basic tasks involved in building socialism—complete elimination of the capitalist structure, socialist transformation of agriculture, and the overcoming of the country's technological and economic backwardness.

Thus, for instance, the need for industrialisation in the USSR was dictated, first, by the fact that, until the victory of the October Revolution, Russia had been technically and economically backward compared with the developed capitalist countries. It was a country of small peasants, where, at the beginning of the transition period, the economic base was still more suitable for capitalism than socialism. Second, the USSR was surrounded by capitalist states striving to destroy or at least weaken the Soviet state.

These circumstances necessitated rapid socialist industrialisation, which was made possible by the socialist economic system and the specifics of the socialist method of industrialisation.

The domination of public socialist ownership of the means of production allowed industrialisation in the USSR to begin with the development of heavy industry, rather

than light, as was usually the case in capitalist countries. The socialist economic system allowed all internal reserves to be mobilised for and geared to the priority development of large-scale machine industry.

The main sources of funds for industrialisation in the USSR were revenues from nationalised industry, agriculture, foreign and domestic trade, and the banking system. All these sources of internal accumulation provided billions of roubles, permitting large-scale investments to be made in industry, especially heavy industry.

During the prewar five-year-plan periods (1929-1941) new industries were created—tractor-building, motor, chemical, machine-tool, aviation, and others. Thousands of factories and plants came into operation. New enterprises began to play the chief role in the total volume of industrial output.

As a result of the successful fulfilment of the programme for industrialisation, during the first two five-year-plan periods (1929-1937), the USSR had already been transformed from a backward, predominantly agrarian country, into a mighty industrial power; the country had achieved complete economic independence from the capitalist countries and its defence capacity had grown immeasurably. The share of large-scale industry in the country's gross product increased from 42.1 per cent in 1913 to 77.4 per cent in 1937. By the end of the Second Five-Year-Plan period, in terms of industrial output the USSR was in first place in Europe and second in the world.

The successful development of industrialisation in the USSR eliminated the contradiction between the world's most advanced political power and a backward technical and economic base, inherited from tsarist Russia. "*The industrialisation of the USSR*," runs the CPSU Programme, "*was a great exploit performed by the working class and the people as a whole, for they spared no effort or means, and consciously made sacrifices to lift the country out of its backward state.*"<sup>1</sup>

Socialist industrialisation was of equal importance for the other socialist countries.

Their industrialisation was accomplished under more propitious conditions than those that had obtained in the

USSR. These countries rely on the comprehensive assistance rendered by the Soviet Union and the other industrially developed socialist states, and this facilitates and speeds up the process of their industrial development.

### The socialist transformation of agriculture

One of the first measures taken by the proletarian government in the countries setting out to build socialism is an agrarian reform involving confiscation of the exploiters' land and its transfer to the toiling peasants.

When he was elaborating the Communist Party's agricultural programme, Lenin foresaw that land reforms might be carried out in different countries both by *nationalisation of all the land*, and by the *transfer of the land to the private ownership of the peasants*. Lenin's forecast has been fully confirmed by time.

In the USSR, straight after the victory of the socialist revolution, all the land was nationalised and then handed over to the peasants for their eternal and free use, but it remained the property of the state. In other socialist countries the land belonging to big landowners was confiscated and most of it given to the peasants as their private property. Only the land on which public enterprises were set up was nationalised.

Yet neither nationalisation of the land nor its distribution among the peasants is, in itself, enough to give rise to socialist relations of production in the countryside.

The predominant form of economy in the countryside following the agrarian reforms is still small-scale privately owned peasant holdings. Socialism, however, proposes the socialisation of the means of production not only in industry, but also in agriculture.

The need for a transition to large-scale socialist production in agriculture arises from the fact that socialism cannot be built on two opposing foundations: that of large-scale socialist industry and that of scattered and backward small peasant holdings. These holdings yield very low commodity output, since the productivity of labour on them is very low. The fact that the peasant farms are scattered and split up hampers the application of machinery and advanced agrotechnology in agricultural production. In these

<sup>1</sup> *The Road to Communism*, p. 458.



circumstances it is impossible to provide the growing population of industrial towns with sufficient foodstuffs and industry with agricultural raw materials. Nor can the welfare of the peasantry itself be improved.

Lenin worked out the ways and methods for the socialist transformation of agriculture on the basis of co-operation.

He discovered the fundamental difference between co-operation under a dictatorship of the proletariat and that under capitalism, pointing out that the growth of co-operation under the former and state ownership of the most important means of production indicates a growth of socialism itself. The transition of the peasants to large-scale co-operative production makes it possible to equip agriculture with new machinery. At the same time, co-operation is a form of building socialism in the countryside in which the entire peasantry, even its poorest strata, can participate.

Proceeding from this, Lenin put forward the *all-out development of co-operation of the peasantry* as a vital task of socialist construction. Lenin showed the methods by which the socialist transformation of agriculture must be carried out on the basis of co-operation. He substantiated the principle of voluntary association, which means that the peasants must not have socialist forms of economy thrust on them, and that the co-operative movement must not be implemented by decree.

A major principle of Lenin's co-operative plan is that co-operation should be introduced gradually, beginning with the most simple forms. The peasants' road to socialism runs from consumer, supplies and sales, and credit co-operatives to the simplest production ones, from these to co-operation of a socialist type.

Development of the simplest forms of co-operation in the spheres of supplies, sales and credit, the positive experience of the work of the first collective and state farms show the peasants in practice the advantages of large-scale socialist farming and teach them the skills they need for running farms collectively.

The most vital conditions for successful co-operation of agriculture are that the working class should be in charge of the building of socialism in the countryside and that all-round help and support should be provided by the proletarian state. Assistance from the state takes many different forms—the provision of new agricultural machinery, money and seed loans, and so on, for the peasants.

Lenin's co-operative plan was first implemented in the USSR. The tremendous educational and organisational work carried out by the Communist Party and the Soviet Government resulted in the USSR seeing a fundamental turn by the peasantry towards collective farms in the second half of 1929. Most of the peasants joined collective farms. Through collectivisation, the country's most numerous exploiting class—the rich peasants—were deprived of means of production. The socialist mode triumphed not only in the towns, but also the villages.

Collectivisation gave the Soviet state a socialist base not only in the most broad and vitally necessary branch of the economy, but also the most backward one—agriculture. Agriculture began to develop on the same basis as industry—public socialist ownership of the means of production.

Under the leadership of the Communist Party and with the all-out assistance and support of the working class, the peasants of the USSR set out towards socialism.

The basic form of collective farming in the USSR was the *agricultural artel*, i.e., a form based on socialisation of the main means of production and the collective labour of the peasants, while the collective farmers retained their personal subsidiary holdings. The agricultural artel ensures a correct combination of the personal interests of the collective farmers and their social interests, and successfully facilitates the development of the productive forces in agriculture.

Collectivisation in the USSR made it possible to create, in only a few years, the world's largest socialist agriculture, based on the most advanced technology, and to provide the country with a much larger saleable output. It laid the way for a sharp rise in the well-being of the collective farm peasantry.

"The introduction in the Soviet countryside of large-scale socialist farming," runs the CPSU Programme, "meant a great revolution in economic relations, in the entire way of life of the peasantry. Collectivisation for ever delivered the countryside from kulak bondage, from class differentiation, ruin, and poverty. The real solution of the eternal peasant question was provided by the Lenin co-operative plan."<sup>1</sup>

<sup>1</sup> *The Road to Communism*, p. 458.

The peasantry of the other socialist countries is confidently following the road laid by the toiling peasantry of the Soviet Union. The majority of socialist countries have already completed the socialist transformation of agriculture.

The experience of the Soviet Union and the other socialist countries shows that the basic principles of Lenin's co-operative plan are applicable to every country setting out to build socialism. At the same time, individual countries might have their own specifics in the co-operation of peasant farms.

Thus, during the socialist transformation of agriculture in the countries of the socialist community, where the land was distributed as private property among the peasants, transitional forms of co-operative farm appeared that did not exist in the USSR. On these farms, the land remained the property of the peasant co-operators, and incomes were distributed not only according to their labour contribution, but also the quantity and quality of the land they had put at the co-operative's disposal.

By creatively applying the basic provisions of Lenin's co-operative plan to the specific conditions in their own countries, the Communist and workers' parties contribute to the development of Marxist-Leninist theory and enrich it with their own experience of building socialism.

### The revolution in the cultural sphere

The rise in the culture of the broad masses of the population in the socialist countries follows on from the very nature of socialism. Lenin noted that socialism's task lies in putting all the achievements of culture at the service of the working people. And the working people take power in order to ensure that all material and intellectual boons become universally accessible.

At the same time, the actual requirements of socialist production engender the need for an all-out rise in the culture and education of the working people. In order to develop socialist production, highly skilled, educated and conscious workers are required in all sectors of the national economy. Consequently, having taken power, the working class must work to organise the education, training and general moulding of the builders of socialism.

As a legacy from the bourgeoisie, and especially the feudal system, the socialist state receives a complete lack of education and illiteracy, so, initially, the proletariat has to take decisive, revolutionary measures in the struggle against the illiteracy and lack of culture of the broadest strata of the working people in both town and countryside. This is why Lenin called the elimination of illiteracy, the introduction of universal education, the organisation of other cultural and educational measures a "cultural revolution". Lenin's programme of revolution in the cultural sphere was a major contribution to revolutionary theory and practice.

*The revolution in the cultural sphere* consists in the broad working masses possessing all the boons of culture that were previously monopolised by the exploiting classes. In a short time, mass illiteracy of the adult population was eliminated in the USSR and a new system of public education was created. General, free education in the local languages was introduced including primary, seven-year and secondary schools.

Major measures were also taken in the sphere of higher and secondary specialised education, and this allowed a numerous, new, Soviet intelligentsia to be rapidly formed. A broad network of scientific establishments was set up and the professional and technical standard of the working class rose substantially.

Major successes were scored in the spheres of the press, radio, television, the cinema, literature and the arts, and cultural and educational work in general among the population.

The revolution in the cultural sphere brought the working people out of their intellectual slavery and ignorance, accustomed them to the riches of culture accumulated by mankind. "The country, the bulk of whose population had been illiterate", reads the CPSU Programme, "made breathtaking progress in science and culture."<sup>1</sup>

<sup>1</sup> *The Road to Communism*, pp. 458-59.



## 4. THE VICTORY OF SOCIALISM

### Elimination of the multiplicity of economic structures and the victory of socialism

As a result of the revolutionary transformations in the economy, political system and culture during the transition period, a new socialist society is created and socialism triumphs.

The victory of socialism means that private ownership is replaced by the domination of public socialist ownership of the means of production. Instead of a multistructured economy, there is the undivided sway of the socialist structure in the form of large-scale, socialist, mechanised enterprises in town and village, and exploitation of man by man is abolished once and for all.

The victory of socialism means that the entire economic life of the country is determined and directed by state plans. Socialist society is freed for ever from anarchy of production and crises. Social production is organised for the greatest possible welfare and the unhampered, all-round development of all members of society.

Incomes are distributed between the working people of socialist society in accordance with the quantity and quality of the labour they have contributed. The principle of "from each according to his ability, to each according to his work" is established. This ensures the material interest of the members of society in the results of their own labour, makes it possible to best combine personal and public interests, and serves as a mighty stimulus to increasing the productivity of labour, raising the economy and the well-being of the people. Awareness of the fact that the working people are working not for exploiters, but for themselves gives rise to labour enthusiasm, innovation, initiative, and socialist emulation.

From 1933 to 1937, in the USSR the socialist transformations were completed and, basically, a socialist society was built.

The victory of socialism led to fundamental changes in the class structure of society. The *working class* ceased to be a class deprived of means of production and became one

that is free from exploitation and, jointly with all the people, possesses the basic means of production. It became vanguard class, the leading force behind the development of society.

The *peasantry* was transformed from a class of small, isolated producers into a completely new class, free from exploitation. In close alliance with the working class, the collective farm peasantry takes an active part in managing the socialist state. The similarity between the two forms of socialist ownership (public and co-operative) brought the working class and the peasantry closer together, consolidated their alliance and made their friendship unbreakable.

A new *intelligentsia* dedicated to socialism, arose from among the people. It was provided with the full opportunity to apply its knowledge fruitfully in the interests of the people building communism. The intelligentsia, together with the working class and the peasantry, participates actively in running the country.

The victory of socialism eliminated the economic and political inequality of nations, the previous opposition between town and country, between mental and physical labour.

The common fundamental interests of the workers, peasants and intellectuals brought about the unbreakable, sociopolitical and ideological unity of the Soviet people, the friendship of peoples and Soviet patriotism.

The radical changes that took place in the economic, political and social spheres as a result of the victory of socialism in the Soviet Union were fixed legislatively in the Constitution of the USSR adopted in 1936.

### Developed socialism

The USSR has now created a developed socialist society that is confidently proceeding from the first to the higher phase of communism.

"The developed socialist society to which Lenin referred in 1918 as to the future of our country," it was noted at the 24th Congress, "has been built by the selfless labour of the Soviet people. This has enabled us to tackle in practice the great task set by the Party Programme, by

its latest congresses—that of building the material and technical basis of communism.”<sup>1</sup>

Developed, or mature, socialism is the period when the new social system—socialism—fully reveals its advantages in the economic, political, scientific, ideological, and cultural spheres, in the labour and life of the people, and creates the conditions necessary for the building of communism.

In socialist society:

- all production, in town and countryside, proceeds on socialist principles, develops in a planned, balanced way, on the basis of an integral fusion of the achievements of the scientific and technological revolution and the advantages of socialism, for the sake of the increasingly full satisfaction of the growing material and cultural requirements of the people;

- the country's economy has attained a high level of development, with an interconnected, national economic complex having been created that includes the national economies of the union and autonomous republics and is developing according to a single state plan in the interests of the whole country and each republic individually;

- class and national antagonism has been abolished and society as a whole and each nation and nationality have social structures of the same type, consisting of a working class, collective farm peasantry and working intellectuals;

- comprehensive development with inseparable unity of union statehood and national statehood is ensured for republics on the principles of democratic centralism, socialist federalism, and Soviet socialist democracy;

- the necessary conditions have been created for the working people to take an active part in the development of science, technology and culture, while a flourishing, drawing together and mutual enrichment of the cultures of the socialist nations and nationalities have become the rule in the country's intellectual life;

- the ideology of Marxism-Leninism, socialist internationalism and friendship between peoples have become entrenched and there is an intensive exchange of material

<sup>1</sup> 24th Congress of the Communist Party of the Soviet Union. March 30–April 9, 1971. Documents, Novosti Press Agency Publishing House, Moscow, 1971, pp. 47-48.

and intellectual values and personnel; the inter-influence and internationalisation of the entire way of life of the peoples gain strength in a variety of forms;

- there is comprehensive development of the new historical community of people—the Soviet people—and consolidation of the socio-political and ideological unity of society.

In political terms, the society of developed socialism is characterised by the state of the dictatorship of the proletariat being transformed into a socialist state of the whole people where the leading role belongs to the working class; in economic terms—by a further deepening of the socialist socialisation of the means of production and labour, an improvement of the relations of production on the basis of a mighty development of the productive forces. The building of developed socialist society in the USSR was fixed legislatively in the Constitution of the USSR adopted in 1977.

In the course of the building and further development of mature socialism, all the necessary material and intellectual preconditions are created for the transition to the new, higher phase of development—communist society.

The Soviet people assumed the historical role of being the initiator and pioneer in laying the way for social development.

The victory of socialism in the USSR was of tremendous international significance. It was a blow to the world capitalist system. In a short time, socialism showed its superiority over capitalism, and this strengthened the working masses' faith in the might of the working class and the victory of socialism throughout the world.

Socialism is now scoring one victory after another in the countries of the socialist community.

As a result of the successful implementation of the plans for socialist industrialisation and socialist co-operation of agriculture the majority of the countries following the socialist course have eliminated the multiplicity of structures in their economies and made socialist relations of production dominant.

This means that these countries have completed or are completing the transition from capitalism to socialism. The heroic efforts of the Soviet people and the peoples of the socialist community have proved and tested the way to the new social system for all other peoples on Earth.



## Removal of the possibility of restoring capitalism in the socialist countries

The victory of socialism resulted in the new system of social production acquiring undivided sway in the country. This means that socialist relations of production were established throughout the national economy, and capitalist relations and the exploiting classes were abolished.

But the victory of socialism in the USSR was not complete. The USSR was the only country to have to build socialism in a capitalist encirclement. The imperialists were strong, so the danger remained of the bourgeois-landowning order being restored by the forces of international reaction.

After the Second World War, the situation in the world changed and a number of countries began to build socialism. The Soviet Union, which had already completed this process, entered the period of all-out building of communism. The capitalist encirclement no longer existed.

The growth of the economic and political might of the USSR, and the formation and consolidation of the world socialist system made it impossible for the socialist achievements to be cancelled out. The victory of socialism in the USSR was *complete*. Not only in the Soviet Union, but also in the other socialist countries, the socio-economic opportunities for restoring capitalism have now been removed. The combined forces of the socialist community reliably guarantee each individual socialist country against encroachments on the part of imperialist reactionaries. The solidarity of the socialist states in a single camp, its growing unity and constantly increasing might ensure the ultimate victory of socialism and communism throughout the socialist community.

The building and development of socialism in individual countries and on the international scale are a great result of the historical creativity of the millions and millions of working people, who have taken their fate into their own hands. The scope for the historical creativity of the working population of the world is, as Lenin himself predicted, growing. This reflects the inevitable transition from the prehistory of human society to its genuine, consciously created history.

The historic triumphs of socialism are of tremendous international significance. The working people are now convinced that capitalism will inevitably be replaced by a new society with tremendous advantages over the old one.

Only in a socialist society can people find their true freedom and happiness. Only socialism liberates man from oppression, giving him broad rights and confidence in the future.

"Socialism has shown mankind the prospect of deliverance from imperialism," reads the basic document of the 1969 International Meeting of Communist and Workers' Parties held in Moscow. "The new social system based on public ownership of the means of production and on the power of the working people is capable of ensuring the planned, crisis-free development of the economy in the interest of the people, guaranteeing the social and political rights of the working people, creating conditions for genuine democracy, for real participation by the broad masses of people in the administration of society, for all-round development of the individual and for the equality and friendship of nations. It has been proved in fact that only socialism is capable of solving the fundamental problems facing mankind."<sup>1</sup>

This is why the tremendous victories of socialism inspire the working people of the capitalist countries to struggle for their rights and for liberation from capitalist oppression.

The fact that socialism has been built in the USSR and is being successfully built in the other countries of the socialist community clearly testifies to the triumph of Marxist-Leninist theory, which lights the way for the working people to liberation from capitalist slavery, and to the transition to the new social formation—communism.

## REVISION EXERCISES

1. What is the essence of the revolutionary character of the transition from capitalism to socialism?
2. Why is the period of transition from capitalism to socialism necessary?

<sup>1</sup> *International Meeting of Communist and Workers' Parties, Moscow, 1969, pp. 21-22.*

3. What is the dictatorship of the proletariat and what forms does it take?
4. What are the general laws of the transition period?
5. How is the socialist structure formed in the national economy?
6. What economic structures and classes exist during the transition period?
7. What are the contradictions of the transition period?
8. What is the economic policy of the state during the transition period and how is it implemented?
9. What are the essence and significance of socialist industrialisation?
10. What are the essence and significance of socialist co-operation of agriculture?
11. What does the victory of socialism imply?
12. What ensures the removal of the socio-economic opportunities for restoring capitalism in the socialist countries?

## Chapter X

# THE PRODUCTIVE FORCES AND RELATIONS OF PRODUCTION IN SOCIALIST SOCIETY

The previous chapter showed the victory of socialism and its transformation into a world system. In order to study the economic laws and categories of socialism, a general description must first be given of the productive forces and relations of production in socialist society.

## 1. THE PRODUCTIVE FORCES

The productive forces of socialist society constitute large-scale machine production in all sectors of the national economy, based on the most advanced technology and the labour of workers free from exploitation.

Large-scale machine production is, under socialism, public property; it develops in a planned, balanced way and is used to raise the material welfare and cultural level of all the working people. This fundamentally distinguishes socialist from capitalist production.

Important features of large-scale machine production in socialist society are its high technical standard and rapid and continuous technical progress.

### Technical progress

The current scientific and technological revolution opens up broad opportunities for technical progress under socialism. Thus, the integral fusion of the achievements of the



scientific and technological revolution with the advantages of socialism entailed technical progress. *Technical progress* in the national economy means a steady development of science and technology and a rise in the cultural and technical level of the working people, the most advanced organisation of production, and on their basis, an all-out increase in the productivity of social labour.

Under socialism, technical progress in the various branches of production is continuous and planned, with the latest scientific and technological achievements and the creative activity of the working people being used broadly. Technical progress is a powerful means for increasing the public wealth in order to ensure a steady rise in the people's living standards.

The main lines of technical progress under socialism are an improvement in the instruments and techniques of production, mechanisation and automation of labour processes, electrification of the national economy, widespread use of chemicals in production, and the use of nuclear power for peaceful purposes. All these are closely interlinked and mutually conditioning. Mechanisation is a precondition for automation. Mechanisation and automation develop on the basis of electrification of production, but electrification, in its turn, is unthinkable without comprehensive mechanisation and automation. The use of chemicals in the economy is impossible without mechanisation, automation and electrification. But, on the other hand, the use of chemicals is acquiring growing significance in the development of mechanisation, automation and electrification.

The basis of technical progress is *improvement of the instruments of production*, which consists in invention and introduction into production of the most economical and productive machines. It is inseparably linked with an improvement in production techniques: methods for extracting, processing and using raw and other materials, the introduction of new types of raw and other materials, the use of high and super-high speeds, capacities and temperatures and other means for intensifying production processes.

Modernisation of equipment is of major economic significance in technical progress. *Modernisation* is the renewal and improvement of existing equipment by replacing obsolete parts, units, etc., of machines. The economic effectiveness of modernisation is seen in the fact that it makes it possible to increase the volume of production and im-

prove the quality of enterprises operation both rapidly and at a relatively low cost.

Improvement of the instruments of production is the basis for further development of the country's productive forces.

Of major importance in the improvement of production under socialism is *mechanisation of labour processes*. Mechanisation means manual labour being replaced by machines. This makes labour easier and more productive, and speeds up the development of the socialist economy.

*Comprehensive mechanisation* is developed on a broad scale under socialism and means mechanisation of all interlinked production processes, both the main ones and auxiliary ones. Comprehensive mechanisation raises the productivity of labour and prepares the ground for automation of production.

A higher stage of mechanisation is *automation*, i.e., the use of automatic machines which are self-controlled and completely eliminate manual labour.

Automation of socialist production makes labour easier and saves on labour, helps to improve the quality and reduce costs. The transition to automation, especially to comprehensive automation of all production processes, extends the service life of equipment, and makes it more reliable in operation. There is a drop in the amount of electricity used, a rise in the standard of production and a cut in the numbers of service personnel. The result is a sharp rise in the productivity of social labour.

In contrast to capitalism, where mechanisation and automation of production result in millions of workers being thrown on to the streets without jobs, mechanisation and automation under socialist conditions do not and cannot lead to unemployment. In socialist society, comprehensive mechanisation and automation of production processes are in the vital interests of the working people; they make the labour of millions of people easier and change its nature fundamentally; they increase labour productivity and create the conditions for reducing the length of the working day and eliminating any substantial differences between mental and physical labour.

Improvement of the instruments of production, modernisation, and mechanisation of labour processes, comprehensive mechanisation and automation of production are accomplished on the basis of the development of engineering, instrument-making and metal-working. In the USSR,

in the forty years from 1940 to 1980, the total volume of engineering and metal-working output rose 72 times. This meant unlimited opportunities for the development of the productive forces in all sectors of the national economy.

Improvement of the instruments of production, mechanisation and automation of production processes are inseparably linked with electrification. *Electrification* means the introduction of electricity in all sectors of the economy and in everyday life. Electricity constitutes the source of power for modern technology, mechanisation and automation. It is the basis for the improvement and intensification of production processes. Electricity engendered new branches of production—electrometallurgy, the electrochemical industry, as well as new methods for processing metals.

The USSR generated 1,295 billion kWh of electricity in 1980, against tsarist Russia's 1.9 billion kWh in 1913. In order to speed up the development of electricity generating capacity, the construction is currently envisaged of more electric power stations: thermal ones using cheap coal, natural gas and crude oil, large-scale hydroelectric and nuclear ones.

A major factor in the technical improvement of the national economy is the *use of chemicals*, which means the development of chemical methods of production. The introduction of the products of the chemical industry allows fundamental changes to be made in all sectors of the country's economy.

In their revolutionary impact on production, chemicals are on a par with electricity. Chemicals make it possible to change the qualities of natural materials, to create new materials with qualities not found in nature, i.e., to increase the quantity of means of labour several fold, to intensify production processes in industry and agriculture sharply.

The successes scored by the chemical industry in producing synthetic materials have created the conditions for a rapid development of the most advanced industries, including nuclear power engineering, radioelectronics, rocketry and others. Without the use of chemical products and methods, no further development would be possible in metallurgy, engineering, the power industry, construction, agriculture, transport, communications, the health service, and so on. Chemicals open up unlimited opportunities for the production of an extremely broad and diverse range of

quality consumer goods. The chemical industry not only feeds people, it can also clothe them; it brings a multitude of convenient, cheap and practical articles into their lives.

At the current stage in technological development, *nuclear power* is coming into increasingly widespread use. In the USSR there is a powerful nuclear power industry which has a great future before it.

Such are some of the main spheres of technical progress in the Soviet Union. One indication of the success of Soviet science and technology is the fact that it was the USSR that built the first nuclear power station and sent up the first satellites, and also built the first atomic ice-breakers. One tremendous achievement of Soviet scientists and engineers was the world's first manned space flight.

The Communist and workers' parties of the socialist countries show a constant concern for rapid technical progress. For instance, the 26th CPSU Congress, in 1981, outlined a grand programme for the period up to 1990 for introduction of the achievements of the scientific and technological revolution. The Congress pointed out the need for a further rise in the effectiveness of all social production. To this end, deep qualitative shifts were outlined for production on the basis of accelerated scientific and technical progress. This means a priority development of the industries that determine scientific and technical progress, the implementation of a single technical policy, further electrification, comprehensive mechanisation and automation, technical retooling of the key branches of production, the introduction of fundamentally new technology, materials, production techniques, the rapid utilisation of the results of scientific research in production, and the development of production and widespread use of automatic manipulators (industrial robots).

## The material and technical basis of socialism

The material and technical basis of a society rests on the existing level of development of the productive forces and accords with the character of the dominant relations of production.

Socialism creates its own material and technical basis, which gradually develops into that of communism.



The material and technical basis of socialism rests on large-scale machine production developing in a planned, balanced way in all sectors of the economy, with a priority growth of the production of means of production.

Large-scale machine production makes it possible to use modern means of labour, and the achievements of science, technology and progressive production techniques on the scale of the whole socialist society. Thus, large-scale machine production creates the material preconditions for a steady growth of the productivity of labour. It allows socialist society, with the help of machinery, to make labour easier, to cut the working day and thus save time for a continuous improvement in the cultural and technical standards of industrial personnel.

The material and technical basis of socialism is distinguished by a high degree of socialisation, which takes the form of concentration, specialisation and co-operation in industry. *Concentration* of production embraces production as such, labour power and the output of products in increasingly large enterprises. Socialist production is the most concentrated in the world. One form in which the concentration of production is manifested is combination.

*Combination* of production means the concentration of various industries, interconnected by the production process, in one large enterprise. For instance, the Magnitogorsk Iron and Steel Combine carries out a full cycle of iron and steel production and includes huge iron and steel workshops, enterprises in the mining, coke and chemical, refractory and other industries. A combine is an integral technological and production unit.

Examples of combination are petrochemical combines, which provide for comprehensive oil refining, the production of petrol and lubricating oils, synthetic rubber and spirit, acetic acid, acetone, plastics and other types of petrochemical processing. Combination of production has also become widespread in the pulp-and-paper, food, textile and other industries.

One distinguishing feature of the material and technical basis of socialism is broad, planned specialisation and co-operation of enterprises. *Specialisation* is the process of the separation of enterprises characterised by special equipment, the production technique, and corresponding skilled personnel, and producing one particular finished product or part of a finished product.

Specialisation is based on a division of labour between individual enterprises. Specialised enterprises offer much greater opportunities for using highly productive equipment, introducing standardisation and mass, flow-line production on the basis of comprehensive automation and mechanisation. Specialisation ensures a steady rise of labour productivity, an improvement in the quality of output and a rational organisation of labour.

Specialised enterprises require close interlinks with one another. This is accomplished by means of co-operation. *Co-operation* is the planned, balanced establishment of constant production links between enterprises jointly manufacturing a particular product, but which are economically independent of one another.

There is intraregional co-operation, when production links connect enterprises within a single economic region, and interregional co-operation, when they connect enterprises in different regions.

The forms of socialisation of socialist production considered above are characteristic of all sectors, including agriculture. The multisectoral system of agriculture is inseparably linked with production specialisation.

Specialisation and co-operation of production are accomplished not only within a single country, but also between socialist countries.

One characteristic feature of the material and technical basis of socialism is a high technological level in all sectors of the national economy, achieved as a result of scientific and technical progress. In the socialist economic system, machines are used whenever this benefits society, i.e., whenever they save on human labour and make it easier.

Large-scale socialist enterprises based on the most advanced technology are one aspect of the productive forces of socialist society. The other, main part of the productive forces of society consists of people themselves, with their labour skills.

The working people—  
the chief productive force of society

During the production of material wealth, people constantly improve the instruments of labour, invent ma-

chines, find applications for natural riches and, at the same time, enrich and improve their production experience and technical knowledge. Only people can make machines run, so theirs is the decisive role in the development of production. The primary productive force of all mankind, Lenin said, is the working man. Large-scale machine production and technical progress in all sectors of the national economy demand large numbers of more and more skilled and educated workers. Socialist society has a vested interest in the level of skills, as well as the cultural level of the people, steadily rising. The mass-scale, planned training of skilled workers in the USSR is accomplished through the system of state vocational schools. Every year sees an increase in the number of skilled workers trained in enterprises on various types of courses and in different sorts of schools, as well as through work-team and individual training.

A significant share of young workers receive special and general education through the system of evening schools, technical schools and higher educational establishments. Of tremendous importance for improving the training of skilled, highly educated personnel in the USSR is the implementation of compulsory secondary education.

Socialism ensures the highest possible cultural and technical level of all the working people. This is manifested in the changing professional composition and rise in the educational level of the working people. The overall numbers of experts with a higher or secondary specialised education employed in the economy of the USSR (including on collective farms) was 26.4 million in 1980, against 190,000 in 1913.

The development of large-scale machine production has led to a growth in the numbers of the working class. In 1928, there were 10.8 million factory and office workers in the USSR, and in 1980 there were already 112.5 million.

The socialist system brings an unprecedented increase in the creative activity of the broad population. Under socialism, each working man is interested in raising the productivity of labour, in a steady and rapid development of the productive forces, since he works for himself, for his own society.

## 2. RELATIONS OF PRODUCTION

Socialist relations of production differ fundamentally from the relations of production under capitalism and other social formations based on private ownership of the means of production.

### The foundations of the relations of production under socialism

Socialist relations of production are based on *socialised ownership of the means of production*, holding undivided sway in all sectors of the national economy.

In the *Manifesto of the Communist Party*, Marx and Engels wrote: "The distinguishing feature of Communism is not the abolition of property generally, but the abolition of bourgeois property."<sup>1</sup>

Of decisive significance in the system of relations of production is the way the worker is connected with the means of production. Under capitalism, the two counterpose each other, since the means of production are the private property of capitalists. They are combined in production by the sale and purchase of labour power, which means bondage and exploitation of the working people. This is why, under capitalism, the working people wage a constant battle for the abolition of private property.

In socialist society, the working people do not stand in opposition to the means of production; they own them. Under socialism the working people are, therefore, interested in the all-out consolidation and development of socialised ownership.

What, then, characterises socialised ownership of the means of production? Above all it implies that the means of production belong to the working people and cease to be capital, a means of exploitation.

Socialised ownership of the means of production under socialism also determines the corresponding character of the relations between people in production, exchange and

<sup>1</sup> Karl Marx and Frederick Engels, "Manifesto of the Communist Party", *Collected Works*, Vol. 6, Progress Publishers, Moscow, 1976, p. 498.



distribution. These relations are characterised by comradely co-operation and socialist mutual assistance between people free from exploitation, by distribution of products to the benefit of the people themselves, according to the principle of "to each according to his work".

In fact, when the means of production belong to the people themselves, when every member of society individually and society as a whole are equally interested in increasing production, the relations between people become friendly. In striving to produce more, people do everything to help one another succeed. The common interests of the working class, peasantry, intelligentsia, indeed all members of socialist society, being free from exploitation, provide the basis for comradely co-operation and socialist mutual assistance. These relations take shape within enterprises, between enterprises, between state enterprises and collective farms, between the working class and the peasantry, and so on.

The relations of comradely co-operation and mutual assistance, the overall creative activity of people, open up unlimited opportunities for development of the productive forces.

Inherent in capitalism is an antagonistic contradiction between the social character of production and the private capitalist form of appropriation of the results of production. Under socialism, this contradiction is abolished, for corresponding to the social character of production there is social appropriation of the products of labour. As a result, socialist relations of production open up broad opportunities for the continuous and rapid development of the productive forces.

Socialist relations of production gradually change as the productive forces become more sophisticated, but the relations of production themselves are not passive in relation to the productive forces. As they improve, they ensure unlimited scope for the development of the productive forces.

### The two forms of socialist property

Socialist property, as has already been shown, emerges during the period of transition from capitalism to socialism.

The working class, once it has seized political power,

encounters, on the one hand, large-scale capitalist property, which is nationalised and transferred into the hands of the socialist state (this is how state socialist property emerges) and, on the other hand, small private property of peasants, artisans and craftsmen, based on their personal labour. Small and medium commodity producers voluntarily combine in production co-operatives, and their property is socialised on co-operative principles. This is how collective farm and co-operative property emerges.

Consequently, under socialism, socialised property exists in two forms: *in the form of state public property*, i.e., the property of the whole people, and in the form of *collective farm and co-operative property*, i.e., the property of individual collective farms and co-operative associations.

The property of trades unions and other social organisations required for them to fulfil their set functions is also socialist property.

The existence of two forms of socialist property accounts for that of two forms of socialist enterprise, similar in social nature—public, collective farm and co-operative ones.

The predominant and leading form of property in all socialist countries is state (public) property.

*State (public) property in the USSR* includes the land, minerals, water, forests, factories and plants, mines and quarries, rail, water and air transport, banks, means of communication, state farms, repair and service stations, state-owned trade and procurement enterprises, municipal services, housing in towns and workers' settlements, as well as the output of public enterprises.

*Collective farm and co-operative property in the USSR* includes the property of 25.2 thousand collective farms (1980); agricultural machinery (tractors, combine harvesters, etc.), agricultural installations, socialised draft and commercial livestock, subsidiary enterprises for processing agricultural raw materials, collective farm power stations, a broad network of cultural and communal amenities and services, as well as the output of collective farms and other co-operative enterprises.

During the building of socialism, there is an increase in commonly-owned collective farm property.

The co-operative form of property exists not only in agriculture, but also, for instance, in trade. In the USSR,

there are co-operative trading enterprises in the form of consumer associations, mainly of the rural population.

Such are the chief forms of collective farm and co-operative associations in the USSR, and they have now become broadly developed in other socialist countries, too.

In their socio-economic nature, public property and collective farm and co-operative property are *of the same kind*. In what way? State enterprises and collective farms, first, are based on socialised socialist means of production and collective labour; second, they exclude exploitation of man by man; third, they operate in a planned, balanced way, in order to improve the welfare of the people; fourth, they implement the socialist principle of distribution according to work done.

The fact that the two forms of property are of the same kind does not, however, imply that there are no differences between them. The main difference between public property and collective farm and co-operative property is their differing degrees of socialist socialisation of the means of production. In public enterprises, all the means of production throughout the country are socialised (constitute national property), but in collective farm and co-operative ones, the means of production are the property of individual collectives (collective farms, artels). The output of public enterprises belongs to the whole nation. The output of collective farms is the property of the given collective farm.

The different degree of socialisation of production engenders different forms of payment to the people working in production and different forms of management. In public enterprises, the socialist state administers through its representatives—directors appointed by state bodies. Collective farm and co-operative affairs are run by a general meeting of members and its elected board of management, headed by a chairman.

The development of the productive forces entails an increase in the degree of socialisation of collective farm production, a gradual rise in the collective farm and co-operative form of property to the level of national property. As communism is built, these processes will eventually result in the public form and collective farm and co-operative form of property coalescing into a single form of communist property owned by the whole people.

## Personal property

Under socialism social property applies to the means of production and output. Part of this output, consisting of consumer goods, is distributed among the people in accordance with the quantity and quality of the work each of them has done and becomes their personal property.

Under socialism, *personal property* means ownership by individuals of products of labour intended for personal consumption. In the USSR, personal property includes wages and savings, part of the country's housing, domestic items, personal consumer goods and amenities.

A particular form of personal property under socialism is the personal ownership of the collective farmer's household which consists of his house, and adjoining structures, domestic livestock and fowl, and small agricultural implements required for cultivating his personal holding. It is based on personal labour of the collective farmer and his family, and is of a subsidiary nature.

The source of personal property in socialist society is labour in social production. Under socialism, the domination of socialist ownership of the means of production lays firm foundations for increasing satisfaction of the personal requirements of the working people and growth in their personal property. This is ensured by the consistent implementation of the principle of personal material interest through wages according to the quantity and quality of labour. This increase in personal property does, however, have its limits. Under socialism, personal property cannot be used to the detriment of the interests of other individuals or the state as a whole.

## Economic laws

On the basis of socialist ownership of the means of production, the economic laws of socialism emerge, develop and operate: the basic economic law of socialism, the law of the planned, balanced development of the national economy, the law of distribution according to work done, and others. The economic laws of socialism express the essence of socialist relations of production and are objective in character. They arise and operate irrespective of people's will or desire. This does not mean, however, that the eco-



economic laws are similar to the laws of nature in operating on their own. Economic laws, as the laws of relations of production, cannot operate in the absence of people or social production. The objective character of the economic laws of socialism engendered by the socialist relations of production merely implies that, in their actions, people proceed from these laws and cannot ignore their operation.

A lack of understanding of the objective character of the economic laws of socialism and a disinclination to take them into account in economic operations has negative consequences. The economic laws make themselves felt if the people violate them.

The way in which the economic laws of socialism operate differs fundamentally from that in which the economic laws operate under capitalism. The difference is that the economic laws of socialism do not operate spontaneously, but are used consciously and in an organised way by society. As Engels put it, the same difference exists between the economic laws of capitalism and socialism as between lightning striking from the sky and electricity in human hands.

Socialist property unites people's actions in integrated economy with a single leadership, so, under socialism, there is no chance for society to develop spontaneously. It becomes possible and necessary to make conscious use of the economic laws of socialism on the scale of society as a whole. For instance, without centralisation in decision-making on the chief issues, no planned, balanced development of the economy is possible. Without unified state guidance, the plans for individual enterprises would lose their significance since the activities of each enterprise would simply involve adapting to the changing play of market forces. Spontaneity and socialism are incompatible and mutually exclusive.

The economic laws of socialism arise and operate on the basis of specific conditions, so a change in these conditions either provides the economic laws with greater scope for their operation or narrows their sphere of action and leads them to dying out.

Thus, for example, the role of the law of the planned, balanced development of the economy increases with the transition to a single, communist ownership. The sphere of operation of the law of distribution according to work done,

on the other hand, becomes narrower and narrower with the transition to communism and, in developed communist society, this law dies out completely, since distribution of the material wealth will then be according to needs.

A scientific knowledge of the economic laws of socialism is necessary in order that they might be used in society's practical activities for elaborating and implementing the economic policy of the Communist Party and the socialist state.

### 3. THE BASIC ECONOMIC LAW OF SOCIALISM

Under socialism, given socialist ownership, the centuries-old longing of the working people for an improvement in the condition is truly fulfilled. Socialist production is organised in order to satisfy the material and intellectual requirements of all members of society. This is its direct goal and natural purpose. Only in this direction, in the direction of raising the standard of living of the population, for the sake of ensuring the full welfare and unhampered, all-round development of all members of society, can socialist production develop successfully.

The goal of socialism is the increasing satisfaction of the people's growing material and cultural requirements. When describing socialist society, Marx and Engels showed that, while the ultimate goal of any activity in capitalist society is to make money, and the receipt by capitalists of surplus value is the motive force and final result of production, under socialism production develops in order to satisfy the requirements of society itself and of all its members. "With this recognition," Engels wrote, "at last, of the real nature of the productive forces of today, the social anarchy of production gives place to a social regulation of production upon a definite plan, according to the needs of the community and of each individual."<sup>1</sup>

Lenin pointed out that socialist society will replace the capitalist one to ensure the full welfare and all-round development of all its members. Lenin often stressed the idea that socialism alone provides an opportunity for the

<sup>1</sup> F. Engels, *Anti-Dühring*, Progress Publishers, Moscow, 1975, p. 332.

actual subordination of social production and distribution to scientific considerations and people's interests and requirements, in order to make the life of all working people as easy and prosperous as possible.

Lenin said that, while formerly human genius, the brain of man, had been used to create merely in order to provide some people with the benefits of technology and culture, and deprive others of the most essential things—education and development, now, under socialism, all the wonders of technology, all the achievements of culture, would become universally accessible and human genius and man's brain would never again be turned into means of coercion and exploitation.

Satisfaction of the requirements of all members of society is objectively conditioned by socialist relations of production. No other purpose for production is possible under socialism, for, in a socialist society, there is no private ownership of the means of production and no, consequently, economic basis for the exploitation of man by man. All the means of production and all the products of labour belong to the working people themselves, united on the basis of socialist ownership of the means of production. The economic interests of the working people, who own the means of production and products of labour, are the chief motive force behind the development of production under socialism. All the development of social production is carried out for the sake of man and for the benefit of man. This fundamental specific of socialist production is manifested in the basic economic law of socialism.

Its essence is that the direct objective of socialist production becomes the full welfare and unhampered, all-round development of all members of society, to be ensured through a continuous rise and improvement of social production. According to the Article 15 of the Constitution of the USSR, "the supreme goal of social production under socialism is the fullest possible satisfaction of the people's growing material, and cultural and intellectual requirements".<sup>1</sup>

The basic economic law of socialism reflects the goal of socialist production and the way to attain it; it determines

<sup>1</sup> *Constitution (Fundamental Law) of the Union of Soviet Socialist Republics*, Novosti Press Agency Publishing House, Moscow, 1977, p. 26.

the motive force of socialist society and its fundamental difference from capitalism.

The Marxist-Leninist party and the socialist state subordinate all their activities in developing the national economy and socialist culture to the chief humane goal of achieving ever fuller satisfaction of the people's material and cultural requirements and their all-round development. As is stated in the "Guidelines for the Economic and Social Development of the USSR for 1981-1985 and for the Period Ending in 1990", adopted by the 26th Party Congress in 1981, "*during the 1980s the Communist Party will continue consistently to implement its economic strategy, the supreme objective of which is steady improvement of the material and cultural standards of the people's life and the creation of better conditions for the all-round development of the individual, based on further growth of the efficiency of all social production, higher labour productivity and greater social activity of the Soviet people*".<sup>1</sup>

On what does the successful fulfilment of this task depend? The chief means for fulfilling it is a continuous development and improvement of social production on the basis of advanced technology. And this means that each worker in socialist society must work selflessly and, with his labour, create the possibility of a steady rise in the well-being of the entire nation.

The workers in socialist society understand that, only by ensuring the continuous development and improvement of social production, can a rise in their standard of living be ensured.

In the process of the development and improvement of social production the material and intellectual preconditions are created for building communist society. Consequently, the basic economic law of socialism is that of the movement and development of socialist society towards communism.

All the measures taken by the Marxist-Leninist parties in the socialist countries are geared to ensuring a steady rise in the standard of living.

Every working person in the USSR feels the benefits of this policy pursued by the Communist Party. Since the

<sup>1</sup> *Documents and Resolutions. The 26th Congress of the Communist Party of the Soviet Union*, Novosti Press Agency Publishing House, Moscow, 1981, p. 163.



inception of the Soviet Union, the living standards in the country have increased immeasurably. In comparison with 1913, the national income in the USSR had risen 73-fold by 1979. From 1950 to 1980 alone, the national income increased by 756 per cent, compared with a 177 per cent rise in the USA. The per capita national income in the USSR increased by 480 per cent between 1950 and 1980, compared with an 88 per cent rise in the USA, 198 per cent in France and 82 per cent in Britain. There has been a significant rise in the real incomes of both workers and peasants. Compared with the prerevolutionary period, by 1979, the real incomes of industrial and construction workers, taking into account the elimination of unemployment and shortening of the working day, had increased by 950 per cent on average per worker, while those of the toiling peasants had risen almost 16 times. Between 1940 and 1980 the real incomes of industrial, office and professional workers increased by 300 per cent, while those of the collective farmers by 590 per cent.

The growth of the material welfare and living standards of the working people is reflected in their purchasing power. Consumption goes up by the year.

The historic transformations in the social structure of society in the USSR were accompanied by fundamental changes in the mode of life of all Soviet people, by an intensive development of its socialist, social features and by a substantial rise in the working people's standard of living.

Unemployment has been completely abolished in the USSR and the length of the working day is being systematically reduced. Working conditions are being made more healthy everywhere; tremendous work has been done to improve the people's housing and living conditions, while the USSR maintains the lowest rents in the world; education is universal and paid for by the state. In 1974, compulsory universal secondary education was introduced. Society assumes a significant part of the cost of bringing up the younger generation. There is a single, unified system of pensions, which are paid by the state and collective farms. The pensionable age in the USSR is lower than in most countries; medical care is free of charge and extensive care is shown for mothers and children. In fifty years, the average life expectancy has more than doubled. The material welfare of the people will rise even further in the future.

The Eleventh Five Year Plan (1981-1985) provides for an increase in the share of the national income, used for consumption and accumulation, by 18-20 per cent, while per capita real incomes are to rise by 16-18 per cent.

Socialism has already brought the working people tremendous benefits. The future development of the most advanced, genuinely people's social system will entail the all-round flourishing of the members of society and fulfilment of what the founders of scientific communism foresaw.

#### 4. THE ECONOMIC ROLE OF THE SOCIALIST STATE

The development of the productive forces and improvement of socialist relations of production does not take place on its own, spontaneously. The *decisive role* in the organisation of the production, distribution and exchange of products at all stages of socialist construction *belongs to the state, guided by the Marxist-Leninist party.*

The organising and mobilising role of the socialist state in the country's economy follows on from all the command posts in the economy being concentrated in the hands of the state.

The bulk of the means of production in the socialist countries (over 90 per cent in the USSR) are the property of the whole people and are in the hands of the state and its representatives, both at the centre and the local level. The rest of the means of production, belonging to co-operative enterprises, are also, in some form or another, subject to centralised, unified management and planning.

The socialist state is the first ever state of the working people. It reflects the interests of the people—those who create the material values, who ensure, with their own creative labour, the existence and development of society. All the socialist state's activities are carried out with the support and active participation of the broad population.

The socialist state is guided in its practical activities by the Marxist-Leninist theory of the laws governing the development of society. The economic policy of the socialist state is based on scientific analysis of the objective development processes in socialist society, which allows not only a correct assessment of the past, but also a correct determination of the development trends for the future.

The chief content of the activities of the socialist state consists mainly in economic, organisational, cultural and educational work.

The socialist state, proceeding from the economic laws of socialism, elaborates plans for the development of the economy and culture and, by mobilising the people, ensures their fulfilment. It determines the scale, rate and proportions of the development of all sectors of the national economy, the volume and structure of investment. It organises financial and credit affairs, composes the state budget and ensures its implementation, distributes the national income, determines the share of accumulation and consumption. The state keeps strict account of and control over the measures of labour and consumption. It determines the wage policy, organises commodity turnover, sets prices, and so on. The state trains and places, educates and moulds personnel. It organises all links in the management apparatus.

The guiding and organising force of the socialist state is the CPSU which directs the activities of all public authorities and social organisations of the working people (Soviets of People's Deputies, trades unions, the Young Communist League, and so on) and mobilises the workers, peasants and intellectuals to fulfil the economic and political tasks. It educates the broad population and raises their communist consciousness.

Thus, the socialist state, under the leadership of the CPSU, carries out tremendous work embracing all aspects of the country's economic affairs.

The enormous growth of the productive forces in the USSR, and the development of the scientific and technological revolution insistently demand a further improvement of the methods and forms of economic planning and management, and a strengthening of the economic mechanism's impact to increase the efficiency of production and the quality of work.

The socialist state runs the economy on the principle of *democratic centralism*, this being the chief principle in the management of the socialist economy. It combines centralised planned management of the economy with socialist democratism, relying on the initiative and activeness of the working people.

The organisation of economic planning and management on the basis of democratic centralism presupposes that the central organs of power concentrate only on the key issues.

Centralisation of management is combined with maximum development of local creative initiative on the part of the broad population. Lenin wrote that, under democratic centralism, "the unity of essentials, of fundamentals, of the substance, is not disturbed but ensured by *variety* in details, in specific local features, in methods of *approach*, in *methods* of exercising control".<sup>1</sup>

The need for a further improvement of economic management methods was stressed at the 26th CPSU Congress in 1981.

The chief principle of management is the *unity of political and economic leadership*. This means that issues must be decided with due account of the tasks of building communism and of national interests rather than local ones.

One of the principles of economic management is a *combination of sectoral and territorial management* of enterprises, which means that each enterprise is a component part both of a particular sector and of a territorial industrial complex. The need therefore arises for combining sectoral and territorial principles in enterprise management.

The 26th CPSU Congress noted that regional and sectoral interests must be better accounted for and combined in management of the economy and that territorial industrial complexes must be better managed.

Of particular significance in the organisation of management is the principle of *personnel selection*. Like any other activity, management is carried out by people. Its success depends largely on the knowledge, abilities and skills of these people and their personal qualities. The selection and placing of personnel must ensure that, in his own section, each person will bring the greatest possible benefit and will work to the best of his abilities, knowledge and experience.

The principles behind management of the economy are determined by the operation of objective laws, so a knowledge of these laws and an ability to run the economy in order to create the widest possible scope for their impact on production constitute a vital task facing the organs of management and direction of the national economy.

Scientifically substantiated management speeds up the development of production. At the same time, shortcom-

<sup>1</sup> V. I. Lenin, "How to Organise Competition?", *Collected Works*, Vol. 26, 1964, p. 413.



ings in management have a detrimental effect on the economy's rate of growth.

The methods of economic management must correspond to the level of development of the socialist economy. Since, also, the economy is not stationary, neither can management remain stagnant and unchanging. Economic management must always be flexible, always geared to achieving the main goal of building socialism and communism, and, at the same time, take account of the specifics of each given period.

Apart from economic, organisational, cultural and educational functions, the socialist state also fulfils others. It organises the country's defences and protection of socialist property.

With the emergence of the world socialist system, the Communist and workers' parties of the socialist countries were faced with creating international relations of a new type, a community of socialist countries. In this context, the content of the foreign political activities of the socialist states expands. Out of the internationalist character of the dictatorship of the proletariat arises a fundamentally new and unprecedented function of the socialist state—the function of assisting other countries in building socialism.

#### REVISION EXERCISES

1. What are the main lines of technical progress under socialism?
2. What is the material and technical basis of socialism?
3. What is the essence of socialist relations of production?
4. Describe the two forms of socialist property—public and co-operative and collective farm.
5. What is the personal property of citizens and what are its sources?
6. What is the essence of the basic economic law of socialism?
7. How is the economic role of the socialist state manifested?

## Chapter XI

### THE PLANNED, BALANCED DEVELOPMENT OF THE ECONOMY

#### 1. THE LAW OF THE PLANNED, BALANCED DEVELOPMENT OF THE ECONOMY

##### The need for planned, balanced development of socialist production

The socialist economy consists of a multitude of branches of production and hundreds of thousands of industrial, agricultural, commercial, transport and other enterprises. Between them there exist many diverse production links. The totality of enterprises, sectors and also economic regions, inseparably interlinked, forms a single, complex production organism—the socialist system of the economy, including both public and co-operative enterprises.

This large-scale social economy develops in a planned, balanced way. According to Lenin, this means that there is a constant, consciously maintained proportionality in the economy (a balance between the links of the economy). Planned, balanced establishment of the proportions in social production is inherent in socialism alone.

The capitalist economy, of course, develops spontaneously, on the basis of competition and anarchy. It is not a planned, balanced economy and there is no consciously maintained proportionality in its development.

Capitalists run their enterprises at their own risk, governed by only personal interests and the market situation. They expand the production of those goods whose prices are currently rising, in order to maximise their profits.

But no capitalist knows for sure exactly how much of the given commodity is required. If more is produced than the market can absorb, prices fall and production is cut back. The capitalists redirect their capital into the production of a different commodity, and this goes on endlessly.

The absence of a single plan results in the balance of the capitalist economy being continually upset. This does not, of course, mean that there is no co-ordination at all between the different sectors and enterprises. The necessary proportions in production are established through countless disturbances of proportionality and crises of overproduction.

Consequently, private ownership of the means of production, which isolates producers, excludes any possibility of effective, overall economic planning. This is why, under capitalism, there is no consciously maintained proportionality, nor can there ever be any.

It is a different matter under socialism. As a result of the socialisation of production, the establishment of socialist ownership, society becomes, as Lenin put it, "one single office, one single factory", social ownership eliminates anarchy and spontaneity and subordinates the development of production to the interests of the whole nation. Under these conditions, the economy can develop only in a planned, balanced way. The state takes advance account of the requirements of society and its productive resources, and directs the development of production in the interests of the people. In accordance with the set goals, society also establishes the necessary proportionality, which it constantly and consciously maintains.

But people cannot establish any proportions at will; they must take account of the specific economic conditions and build their economic policy on this basis. Within the large departments of social production, specific proportions and a specific correlation of their development rates must be observed. For example, lots of tractors, cars and other vehicles with internal combustion engines can be manufactured, but, unless a corresponding amount of suitable fuel is produced, they will all stand idle and the labour spent on producing them will have been wasted.

The objective interconnection between the processes of economic development which, irrespective of people's will, requires planned, balanced establishment of certain proportions is manifested in the *law of the planned, balanced development of the national economy*.

The law of the planned, balanced development expresses the need for centralised management of the economy in order that all its links and sectors might be co-ordinated in a single economic whole, that proportionality might be

observed in their development, and that material and labour resources might be used in the most rational and effective way possible.

The use of the law of the planned, balanced development of the national economy makes it possible to distribute the means of production and labour resources correctly among the branches of the economy and regions of the country, to achieve a rational utilisation of them, ensure mutual co-ordination in the work of all sectors and enterprises, and establish the necessary correlations in the development of production, exchange and distribution.

The law of the planned, balanced development of the national economy is interrelated with the other economic laws, especially with the basic economic law. Without planned, balanced organisation of production on a country-wide scale, the goal of socialist production—complete well-being and the unhampered, all-round development of all members of society—is unattainable.

This goal is realised at each given stage depending on the level of development of the productive forces, on the availability of material resources, on the internal and external situation in which the socialist country finds itself. In accordance with this, the concrete proportions are established in the national economy on the basis of the law of planned, balanced development.

The law of planned, balanced development has operated in the socialist countries ever since socialist ownership and the socialist economic structure were established. But, initially, the sphere of operation of this law is limited, since there are non-socialist economic structures still coexisting with the socialist sector in the economies of the socialist countries at this stage in their development. As the socialist sector grows and becomes consolidated, the sphere of operation of this law expands. The law of planned, balanced development obtains full scope when the socialist forms of economy gain undivided sway over the economy.

When socialism spread beyond the confines of a single country and the world socialist system took shape, the operation of the law of planned, balanced development came to embrace the relations between the socialist countries, too.

The law of planned, balanced development acts as an objective regulator of the socialist economy, it does not fulfil this role spontaneously, however, but through the management activities of the state.



## Proportions in the socialist economy

Applying the law of planned, balanced development of the national economy, the socialist state maintains, consciously and in a planned way, a constant proportionality between the various links in social production, which are interconnected and interdependent.

The key proportion in the development of the national economy, determining the proportions and the entire course of social production, is the *ratio between the production of means of production and the production of consumer goods*, i.e., between Department I and Department II of social production. The means of production are necessary for the development of the productive forces, for a rise in the technological standard of production, a growth of productivity and an easing of labour, and for a strengthening of the state's defence capability. Ultimately, however, they are intended for increasing the output of consumer goods and improving the standard of living.

Also of major significance for the planned, balanced development of the national economy is the establishment of the *correct proportions between industry and agriculture*. The correct proportions in the development of these sectors of the economy are called on to ensure, on the one hand, the leading role of industry and, on the other, the growth of agricultural production required for supplying the necessary amount of foodstuffs for the urban population and raw materials for light industry. The correct proportions must also be established *between individual branches, both in industry and in agriculture*.

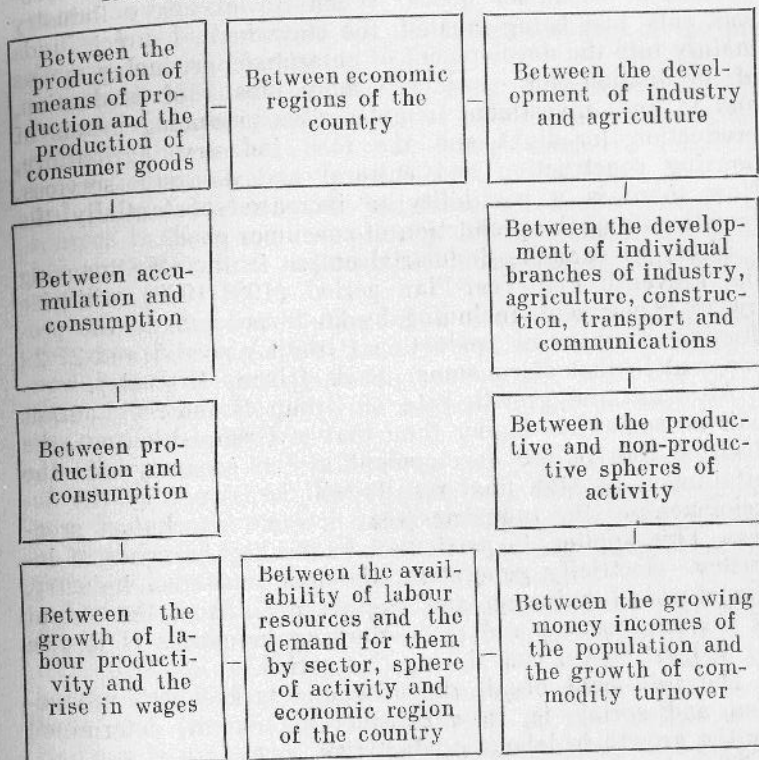
The chief proportions in the national economy also include those *between production and consumption, accumulation and consumption, between the growing money incomes of the population and the growing commodity turnover, between economic regions of the country, and so on*.

Thus, there is a wide range of economic proportions, and the chief task of socialist society is to maintain them constantly.

The proportions between the sectors of the national economy cannot be established at will; they are subject to specific laws.

Essentially, the proportions in the socialist economy are objective in character. The socialist state cannot set them

## The Chief Proportions in the National Economy



as it wishes, but has to determine scientifically and accomplish the objectively necessary proportions in the development of the socialist national economy.

A correct balance between the parts of social production depends on a whole number of factors, including: the existing level of development of the productive forces and technical progress, the level of labour productivity, the volume of material resources available, the foreign and internal situation in which the socialist country finds itself, and others. It is in accordance with these factors that the proportions are established, so the correct ones are not fixed once and for all. They are constantly being changed and improved.

Thus, once developed socialism had been built in the USSR, alongside the rapid development of heavy industry

an opportunity emerged for a sharp expansion of the production of consumer goods. When Soviet heavy industry was only just being created, the state had to direct funds mainly into the development of enterprises producing means of production for producing more means of production, and to limit investment in enterprises producing means of production for light and the food industry, agriculture, housing construction and cultural and domestic services. Now there is a possibility to increase substantially the growth rate of the production of consumer goods.

Thus, for example, industrial output in the USSR during the Eleventh Five-Year-Plan period (1981-1985) will rise by 26-28 per cent, including by 26-28 per cent in the production of means of production (Group A goods) and 27-29 per cent in that of consumer goods (Group B goods).

Although the growth rate of Group B industry output will be somewhat higher than that of Group A output, the decisive role in the development of the economy and the attainment of high final results will be played by the development of the industries that determine technical progress. This applies, in particular, to the key branches of industry—electricity generation, the iron and steel industry, the chemical industry, and engineering. Thus, the output of the engineering and metal-working industries is to rise by at least 40 per cent during this period.

The fulfilment of all the economic tasks—both production and social—is, to a considerable extent, determined by the growth in labour productivity.

The planned, balanced development of the economy also presupposes a *proportional location of the productive forces*. This is accomplished according to a plan, for the purpose of raising the productivity of social labour and the people's welfare, and strengthening the economic and defence might of the socialist state.

The basic principles behind the location of production under socialism are that industry should, as far as possible, be located close to sources of raw materials and energy and the regions where the finished product is consumed, and that, in this way, long-distance freight transfers should be avoided; that there should be planned, balanced territorial division of labour between economic regions, combined with comprehensive development of the economy within these regions; that the economies of all the national republics should be steadily rising, this constituting the

economic basis for consolidating the friendship and co-operation between peoples.

The broad programme for the future location of the productive forces includes:

- accelerated exploitation of natural resources, an increase in the economic potential of the country's eastern regions; the location of new, energy-intensive industrial production predominantly in Siberia, Kazakhstan and Central Asia, considering the existence of cheaper energy resources in these regions; priority development of the building materials and construction industries in the eastern regions;

- steady implementation of a course of holding back the growth of big cities, as a rule, a halt to the location of new industrial enterprises in such cities, with the exception of ones connected with services to the population and the municipal economy;

- the location in small towns and industrial settlements of small, specialised enterprises and branches of plants and factories already existing in big towns; the location of production in industrial centres taking account of rational utilisation of male and female labour.

The programme for the future location of the productive forces is being successfully implemented. The extremely rich deposits of oil and gas in Western Siberia are being exploited. A gigantic motor works has been built on the Kama. The laying of the Baikal-Amur Railway is underway, and this is transforming vast regions in the Trans-Baikal and Far East. A major accomplishment of future five-year-plan periods will be a rise in the economy of the Non-Black Earth Zone of Russia, where about 60 million people live. This is the first ever transformation of its kind on such a vast scale.

Moreover, the long-term plan provides for more work to be done in exploiting hydro-electric resources, developing irrigated and improved-land farming on a broad scale, and improving the utilisation of timber resources.

The socialist location of production ensures the most effective use of natural resources, investment and labour resources. It results in a rise in the productivity of social labour, speeds up the growth of production and advances the people's wellbeing.



## 2. SOCIALIST PLANNING

The scientific foundations of the planning and management of the socialist economy were laid by Lenin himself. Under his personal direction, the foundations were also laid for the planned running of all the links of the national economy. According to Lenin the demands to be made on the management of the planned economy were that it should be carried out on a scientifically substantiated basis, that managers should be able to determine the future prospects correctly and that their tasks be fulfilled in strict order of priority. He also demanded an orientation on the latest achievements of science and technology and expertise, flexibility, and an ability to react quickly and accurately to changing conditions.

### The principles of socialist planning

The compilation of plans for the development of the socialist national economy and the organisation of production on the basis of a single, state plan is called *planning*.

Planning of the national economy is one of the most important manifestations of the economic and organisational function of the socialist state.

In planning the whole national economy, the socialist state proceeds from the entire system of the economic laws of socialism, especially the conscious application of the law of the planned, balanced development of the economy.

The central task of socialist planning is to establish proportions in the development of the economic sectors that will ensure a continuous and rapid development and improvement of social production, and on this basis, a rise in the people's welfare. In the development of the national economy strict observance of *proportionality* is necessary; the emergence of economic disproportions must be averted in good time, ensuring adequate economic reserves as a condition for high and stable economic growth rates, the uninterrupted operation of enterprises and a continuous growth of the people's wellbeing. Taking into account the requirements of social development, the socialist state draws up economic plans, i.e., it organises production, distribution and exchange in a planned way on the scale of all society. It distributes material, labour and financial

resources; it decides the volume and structure of production and construction, the growth rate of labour productivity on the basis of the introduction of new technology, it decides the size and composition of the country's foreign and domestic commodity turnover; it sets the prices for commodities in state and co-operative trade and decides the wage level for factory and office workers, and so on.

The point of departure in the organisation of planning is the decisions of the Communist Party congresses, which determine the development of socialist society for extended periods.

Each national economic plan embodies Communist Party policy. In this the *principle of partisanship and the state approach to fulfilling economic tasks* is manifested.

The national economic plans are not just forecasts or guesses, but a concrete programme for the given period of time. Since state plans reflect the pressing tasks of economic and cultural development, their fulfilment is objectively necessary. Following a broad discussion of the plans by the working people and their approval by the supreme organs of the state, they acquire force of law and become mandatory.

*The directive and mandatory nature of plans constitute a major principle of socialist planning.* Otherwise planning would be pointless. After all, if one sector of the economy, say the timber industry, does not fulfil its plan, this means that other industries may not be able to do so either, if they depend on receiving a specified quantity of timber. This is why the strictest plan discipline is maintained in the socialist countries.

In order to ensure the planned, balanced, proportional development of all branches of material production, the plans for all enterprises and industries must be co-ordinated. State planning guidance applies not only to the public, but also the collective farm and co-operative sector. This does not mean, of course, that the state planning bodies draw up the plan for each individual collective farm. But each enterprise works out its own plan on the basis of the general state assignment. Following discussion at the local level, the plans for certain public industrial enterprises, state farms and collective farms are presented to the central planning bodies and combined into a unified national economic plan.

The combination of centralised planning with local ini-

tative constitutes the *principle of democratic centralism in planning*.

There are *short-term* plans, drawn up for a month, quarter, or year, and *long-term* ones for several years, maybe five, ten, fifteen or twenty. Lenin taught that the economy cannot be developed without plans for many years ahead. Long-term plans reflect the chief line of economic development for several years to come, while short-term ones provide a specific programme of work for shorter periods. The long-term plans outline the solution to major socio-economic problems.

The first ever scientific long-term plan for the development of the national economy was the GOELRO Plan (the State Plan for the Electrification of Russia), drawn up in 1920 on Lenin's initiative and under his guidance. The chief task set by the plan consisted in a fundamental restructuring of the national economy on the basis of electrification and development of large-scale machine industry—the material basis of socialism.

The long-term plans outline only the most general, aggregated indicators, which are then specified in the short-term plans. *The combination of short-term plans (monthly, quarterly and annual) with long-term ones is a principle of socialist planning*. A correct combination of the two types of planning should ensure continuous and consistent planning for in-between periods, uninterrupted financing and material and technical supplying of enterprises, and the like.

A plan cannot be drawn up without first singling out the economic links whose priority development is absolutely essential. It is the most progressive economic sectors that are taken as the basis and, in accordance with their development rates, the development of other sectors is planned. For instance, at present in the USSR, it is the development of the electric power industry, engineering, the chemical industry and the iron and steel industry that constitutes the progressive sphere of a scale and significance that must exert a decisive influence on the entire economy. *Identification of the key economic links is one of the most important principles of socialist planning*.

In socialist society the plans are *realistic and scientifically substantiated*. This means that, when compiling each national economic plan, the planning bodies proceed from the existing economic conditions and possibilities, from

the given level of development of the productive forces, science and technology, making broad use of the experience of those at the forefront of production. The realism of the plans is ensured by the organisational work of the party and social organisations and the creative initiative of the working people themselves.

Noting that the success of plans in the Soviet Union depends primarily on people, Lenin himself strove and taught others "to test and discover real organisers, people with sober and practical minds, people who combine loyalty to socialism with ability without fuss (and in spite of muddle and fuss) to get a large number of people working together steadily and concertedly within the framework of Soviet organisation".<sup>1</sup>

The drawing up of the plan is only the beginning of planning. A major aspect of planning is the *verification of plan fulfilment*, which reveals errors in planning in good time and new reserves, and makes it possible to introduce the necessary corrections into the national economic plan. If, as a result of inaccuracy in planning or other factors, partial disproportions arise in the national economy, they are rapidly revealed and eliminated. A major means the socialist state possesses for eliminating planning defects that rise to the surface and for averting partial disproportions is state reserves.

The principles of socialist planning are realised in the drawing up of the plans for the development of the national economy. In modern planning practice wide use is made of mathematical economic model building, systems analysis and other such methods. The planning bodies apply the balance method when developing the key indicators of the national economic plans.

## The balance method of planning

The *balance method* makes it possible to compare, in advance, the tasks for developing the key industries and the possibilities for providing the materials and equipment for them. In order, for instance, to fulfil the housing construction programme, the required quantity of building

<sup>1</sup> V. I. Lenin, "The Immediate Tasks of the Soviet Government", *Collected Works*, Vol. 27, pp. 262-63.



materials, building machinery, personnel and funds must be calculated. When the requirements are compared with, say, available building materials, it turns out that there are not enough enterprises producing such materials. Proceeding from this, plans are drawn up for the development of the building materials industry.

In drawing up balance tables, a careful check is made on the extent to which the development rates of industries are co-ordinated and on which reserves are indicated in the plan in case individual branches of production overfulfil or underfulfil it.

The state planning bodies compile material (physical), value, and manpower balances.

*Material balances* are drawn up for all the main products of labour, such as metal, machine-tools, coal, oil, grain, butter, and so on. Account is taken of the sources of the given product. The resulting data are compared with society's requirements for the given products.

*Value balances* include those for the money incomes and expenditures of the population, the national income, the state budget, etc.

*The manpower balance* determines the national economy's need, by sector, for labour power in general, and also by skill and trade. Here, also, the sources for providing the economy with the necessary labour power are indicated.

The balance for the national economy of the country is a generalising balance. It combines all the indicators describing the proportions in the socialist economy.

The balance system of planning makes it possible to calculate and determine, with maximum precision, the proportions in the development of the sectors of the national economy.

## Improvement of planning

At the current stage in the economic development of the USSR, a further improvement of planning is now necessary. This is because the socialist economy is continuously and rapidly expanding. The scale of production is growing, its technological standard and sectoral structure are changing; new economic links and relations are emerging and growing in complexity. Of decisive significance now is an increase in the efficiency of production on the

basis of the accelerated introduction of scientific and technological achievements. For this reason, a further improvement of management and planning of the national economy is becoming increasingly pressing and necessary.

The main ways to improve planning and management of the economy were determined by the 25th CPSU Congress in 1976 and the 26th Congress, in 1981. In 1979 the Central Committee of the CPSU and the Council of Ministers of the USSR adopted a resolution, "On improving planning and strengthening the impact of the economic mechanism on increasing the efficiency of production and the quality of work". The resolution provides for a system of measures for further improving the planned running of the economy, development of democratic principles in production management and an increase in the creative initiative of work collectives.

The complex of measures for the further improvement of planning is based on the rich experience of socialist planning, the results of economic experiments and scientific recommendations.

The economic mechanism is being geared even more to raising the efficiency of production and the quality of work, to achieving high final national economic results, to better satisfying the growing social and personal requirements. The focal point of management and planning activities is the task of ensuring rational use of everything at the disposal of the national economy, relying mainly on intensive growth factors, introducing scientific and technological achievements and advanced experience into production on a broader scale.

The key position in the complex of measures for perfecting the economic mechanism and management belongs to improvement of planning, an increase in the role of the state plan as the chief instrument for realising the CPSU's economic policy.

The system of plan indicators is being improved in order that they might encourage work collectives to battle to the full for higher labour productivity, maximum use of fixed assets and savings on material resources. The comprehensiveness and continuity of planning is ensured on the basis of the socio-economic tasks for the development of the economy. A comprehensive programme for scientific and technical progress for the next twenty years is being drawn up (by the five-year period).

The chief form of planning in the USSR is five-year plan for economic and social development. In the compilation of these plans, the primary task is set of ensuring:

a) a comprehensive solution to economic and social problems; a concentration of forces and resources in fulfilling country-wide programmes, thereby preventing a narrow sectoral approach to the elaboration of plans;

b) accelerated realisation of scientific and technical experiments and development intended to increase the growth rate of the productivity of social labour and the quality of output;

c) rational use of productive assets, material, labour and financial resources, stricter economies and elimination of losses in the national economy;

d) correct determination of priorities in the development of sectors and economic regions for ensuring progressive changes in national economic proportions, a higher effectiveness of investment and of social production in general;

e) the formation of the material and financial reserves necessary for proportional and balanced development of the economy.

For the purpose of assessing the activities of a work collective more objectively, the indicator of the standardised net product is introduced. This is intended, in most industries, as the basis for planning production, determining the productivity of labour and the planned wage fund.

In drawing up plans and assessing their fulfilment, it is the achievement of national economic results, satisfaction of social requirements through rational use of all priority resources. This is manifested, in particular, in an expansion of the opportunities for consumers to influence the formation of production plans. During the preparation of plans, associations and enterprises determine the output range on the basis of long-term economic links with consumers and suppliers, and conclude economic contracts for the five-year period. The fulfilment of the plan for the delivery of output to the consumer in accordance with these contracts is becoming a major factor in assessing the results of the work of collectives and the formation of material incentive funds.

The practical realisation of the broad complex of measures to improve planning and strengthen the impact of the economic mechanism ensures greater efficiency of the Soviet economy.

## The specifics of the planning of collective farm production

A distinguishing feature of collective farms as co-operative enterprises is that they run their economies on the basis of the means of production belonging both to the state and to the collective.

They do not run their production in isolation, however, but with the daily and comprehensive assistance of the state. The state sells collective farms tractors, combine harvesters and other agricultural machinery, mineral fertilisers, and electricity, carries out land improvement work, trains experts and machine operators for these farms, provides them with financial support through long-term credits, and so on. All this creates the economic foundations for state planned management of collective farm production. The need to include collective farms in the single national economic plan is also determined by the fact that the collective farm sector produces a substantial part of the foodstuffs and raw materials in the country, i.e., that it is an integral part of all socialist production.

Consequently, the socialist state can and must plan collective farm production. There are, naturally, certain specifics in the planned management of collective farms owing to the co-operative nature of these enterprises. The chief specific of this sort consists in the collective farms being allowed a considerable degree of independence in organising labour and production and in distributing their output.

The state planning bodies determine for collective farms only the volume and range of output to be purchased by the state. All other issues, such as the structure of sown area, the selection of crops, head of cattle, development of subsidiary branches, distribution of the gross income between consumption and accumulation funds, are planned by the collective farm independently, taking into account the specifics of its own natural and economic conditions. It is important to note that firm plan tasks for the sale of output to the state are determined for several years ahead, this providing the collective farm with the necessary conditions for planning its economy in the long term. The state plans for the purchase of collective farm produce are backed up by material and technical supplies to the collective farms and set procurement prices. Moreover, additional supplements to procurement prices are made for the sale of col-



lective farm produce over and above the plan. All this creates the necessary conditions for a correct combination of the interests of the state with the common interests of the collective farms.

### 3. THE ADVANTAGES OF THE PLANNED ECONOMY

Planned running of the economy is one of the decisive advantages of socialism over capitalism, as has been proved in practice by the great achievements made by the USSR and the other socialist countries in developing their economies.

The advantages of planned running of the economy are as follows.

The socialist economy is constantly on the rise. Under capitalism, the contradiction between the social character of production and the private capitalist form of appropriation of the results of production dooms society to economic crises, but this contradiction no longer exists under socialism. Social ownership corresponds to the social character of production. As a result, socialist production is free from economic crises of overproduction. The planned, socialist economy ensures a capacity operation of equipment and full use of fixed assets.

The socialist planned economy liberates society from the colossal waste of material and labour resources capitalism has to make owing to economic crises, anarchy and competition, unemployment, chronic underloading of enterprises, and so on.

The socialist national economy develops in a planned, balanced way in order to achieve the maximum wellbeing of all members of society and the all-round development of the individual.

Planned running of the economy is a powerful factor behind scientific and technical progress. Under capitalism, the monopolies' strivings to keep their technical secrets from one another and the chronic underloading of enterprises hold back the introduction of scientific and technological achievements. Socialist society opens up unlimited scope for the development of science and technology. The planned running of the economy makes it possible to concentrate labour, material and financial resources on fulfilling the priority tasks in science and technology.

A major advantage of socialism over capitalism is the planned use of labour resources, which ensures full employment of the able-bodied population. Under socialism there is no unemployment; instead, there is a steady increase in the numbers employed in the national economy, skilled personnel are trained and distributed between industries according to a plan and there is a systematic rise in the material and cultural level of the working people.

The advantages of the planned running of the economy are also seen in the development rate of the socialist economy. The volume of industrial production increases by the year in the socialist countries at a rate beyond the ability of capitalism. The planned, balanced development of the socialist economy leads to a constant rise in production, and the cultural and material living standards of the people in the socialist countries.

Not by chance do the ideologists of the bourgeoisie strive to prove that a planned economy is possible under capitalism. In this way, they try to improve the image of the capitalist system and give the working people the impression that capitalism's social ills can be overcome without the system itself being overthrown. Yet the contradictions of the capitalist economy, anarchy of production and crises, unemployment and the impoverishment of the working people in the capitalist countries, refute these ideas completely.

### REVISION EXERCISES

1. What is the essence of the law of planned, balanced development of the national economy under socialism? Why is planned development of the national economy both possible and necessary under socialism?
2. Describe the chief proportions in the national economy.
3. What are the principles behind the location of the productive forces under socialism?
4. What are the principles of socialist planning?
5. What is the essence of the balance method of planning?
6. What is the essence of the improvement of planning in the USSR?
7. What are the specifics of the planning of collective farm production?
8. What are the advantages of planned economic management?

## Chapter XII

# SOCIAL LABOUR AND THE PRODUCTIVITY OF LABOUR

### 1. SOCIAL LABOUR UNDER SOCIALISM

#### The character of labour under socialism

Labour, or people's working activities directed to producing material wealth, is a necessary condition for the existence of any society, but, under different socio-economic formations, it differs in its social character. It is totally dependent on the relations of production predominant in the society. Whether labour is voluntary, free labour performed for oneself and for one's own society or involuntary, forced labour performed for exploiters depends on who owns the means of production.

Under all exploiting social formations, labour was always involuntary in character. The working people were compelled by a variety of methods to create wealth for the exploiters. All this happened because the direct producers did not own the means of production. Consequently, private ownership of the means of production is the basic reason for the compulsory character of labour, which turns it into a heavy burden. In order to abolish forced labour, private ownership of the means of production must be eliminated.

The picture is different in socialist society, where all the people work for themselves and for their own society. Each production achievement, each labour success, helps either directly or indirectly to improve the material and cultural condition of the working people. When describing labour under socialism, Lenin pointed out that "for the first time after centuries of working for others, of forced labour for the exploiter, it has become possible to *work for oneself*

and moreover to employ all the achievements of modern technology and culture in one's work".<sup>1</sup>

Socialism brings about a fundamental change in people's views on labour and engenders a new attitude towards it. The creativeness of labour in the socialist countries is evident in the fact that the workers themselves invent and improve machinery, improve production techniques and organisation. The army of rationalisers and inventors is constantly growing. In the USSR, in 1980, for instance, over five million innovations were proposed and over four million of them were introduced into the economy. This brought a saving of over 6.3 billion roubles during the year.

The socialist state uses all the means at its disposal, both material and moral, to encourage creativity, a creative attitude to labour. The most highly respected person in a socialist country is the worker who is an innovator, who develops production and multiplies his country's wealth.

In capitalist society, where labour is a heavy burden, a cruel and tormenting humiliation, the workers' innovatory initiative is reduced to a minimum. How can there be creativity if the profits from any invention find their way into the pockets of Morgans, Rockefellers, DuPonts and the like?

Socialism opened up for the first time a broad opportunity for a rapid rise in the assets-to-worker ratio in all branches of social production. The rise in this ratio under socialism is manifested in the growing use of machines, and a rise in the energy-to-worker ratio, too. This makes the worker's labour easier, turns it into highly skilled labour, and gradually erases the difference between mental and physical labour.

Socialist production, using the latest technology, requires technically literate, trained people. Each working man in socialist society has extensive opportunities for improving his work skills and broadening his education. All the basic forms of education in the USSR are free of charge: secondary, secondary specialised, higher education, training in vocational and technical schools, on qualification improvement courses, and postgraduate studentship.

<sup>1</sup> V. I. Lenin, "How to Organise Competition?", *Collected Works*, Vol. 26, p. 407.



It is socialism that has created, for the first time ever, working conditions precluding to the maximum harmful consequences for the workers' health. Lenin noted on several occasions that any achievement of science and technology under socialism must go to ease labour, shorten the working day and improve working conditions.

Under socialism, everyone is guaranteed the *right to work*. This provision is fixed in the constitutions of the socialist countries. The exercise of the right to work, i.e., the right of every working person to receive, in his own country, a job in accordance with his speciality and payment for his labour, is a great achievement of socialism. This right is ensured in practice by the planned development of the national economy and the continuous growth of production. Under socialism, the workers have no fear of remaining without means of subsistence. Elimination of unemployment in all its forms gives the working people in socialist society a firm confidence in the future and genuine freedom.

While guaranteeing everyone the right to work, socialism also makes *labour obligatory for all*, makes it compulsory for everyone to participate in socialist production, this being the sacred duty of all members of socialist society, irrespective of their origins, sex, nationality, etc.

One major specific of labour under socialism is its *directly social character*. Socialist labour is organised and rated in a planned, balanced way on a countrywide scale. Socialism leads to the establishment of a new social division of labour differing fundamentally from that under capitalism. The most important feature of the socialist division of labour is that it is implemented according to a plan. Socialism abolishes the isolation and separation of individual production units and farms, combining all enterprises into a single economic organism and people into a single work collective. This is why the labour of each worker, peasant and intellectual is part and parcel of the total social labour and is directly social in character.

Thus, the chief features of labour under socialism are liberation of the working people from exploitation and transformation of labour from forced into free labour for oneself, the equal right of all people to work and the universal duty to do so, the directly social character of labour, and a conscientious, creative attitude towards it.

## Socialist labour co-operation

The fundamental change in the character of social labour under socialism leads to an equally fundamental one in the forms and methods by which it is organised. Socialist labour is collective labour, the joint activities of workers, collective farmers and intellectuals.

In any society, the production process is accomplished on the basis of co-operation of labour—some form of the people's joint labour. The *socialist co-operation of labour* is joint labour, organised according to a plan, and based on comradesly co-operation between workers free from exploitation. Socialist co-operation of labour differs radically from that under capitalism.

Under capitalism, labour co-operation is based on private ownership of the means of production, on division of labour and exploitation of man by man under the control of the capitalists. All the benefits from such labour co-operation are reaped by the exploiting classes.

Under socialism, on the other hand, labour co-operation is based on socialised socialist ownership of the means of production, so there is no exploitation of man by man.

Socialist labour co-operation embraces not only the labour of the workers in a given enterprise, but also that of all members of society. Under socialism, the labour of all society's members acts as a single collective labour, organised in a planned way on the scale of all society, in order to achieve the most rational utilisation of the means of production and labour power.

Under capitalism, labour co-operation (simple co-operation, manufactory, large-scale machine production) is a method for increasing the production of surplus value, for raising the degree of exploitation of the working people, so there are permanent and irreconcilable contradictions here between the ordinary participants in co-operation—the workers—and its organisers—the capitalists. Capitalist labour co-operation is maintained on a starvation discipline, on the basis of the pressing need to sell one's labour power, on any conditions, in order to scrape a living together.

Socialist labour co-operation is people's joint labour activities geared to increasing the production of material wealth and ensuring increasingly full satisfaction of the working people's requirements. This is why the irreconcilable contradictions inherent in capitalist co-operation are absent from socialist labour co-operation.

Labour co-operation, i.e., the joint labour of many workers, needs to be organised. The main aspects of this organisation under socialism are as follows.

Inherent in socialist labour co-operation is a new *labour discipline*, differing from that in all the preceding social formations. Socialist labour discipline is the conscientious, comradely discipline of the working people. But this new discipline, as Lenin pointed out, is engendered not by just good intentions; it is developed in the process of building socialism, during the continuous struggle against the vestiges of capitalism. The workers in socialist enterprises still include certain individuals who cling to the old attitude to labour and strive to work as little as possible and grab more for themselves. Thus, the cultivation of a communist attitude to labour in the working people, and the systematic struggle against those who violate labour discipline are among the state's central tasks.

Socialist labour co-operation presupposes *planned management of the national economy*. It is characterised, on the one hand, by firm and unwavering implementation of the principle of one-man management of production and, on the other, the broadest and most active participation by the working masses in running socialist enterprises and all social production.

One of the chief principles behind the organisation of socialist labour co-operation is the principle of the workers' *material interest* in the results of their work. This material interest is ensured primarily by the distribution according to work done, which makes each worker's wages depend on the quantity and quality of his labour put into social production. Also of major significance is the consistent implementation of cost-accounting, the increase in payments and subsidies out of the social consumption funds, the improvement of working conditions, and so on.

A major role is played in socialist society by *moral incentives to labour*. The socialist state gives incentives to the best workers and advanced collectives of enterprises. They are rewarded with orders and medals, certificates of honour; the best workers are given honourable titles, and the like. All this engenders a striving to do one's best at work, to produce more and better, and guarantee good work. This spirit of competition is a characteristic feature of socialist labour co-operation.

## Socialist emulation and its role

As already mentioned, the change in the character of labour under socialism inevitably engenders a new attitude to labour on the part of the workers. This new attitude is reflected most clearly in *socialist emulation*.

Socialist emulation expresses socialist relations of production, relations of comradely co-operation and mutual assistance between the workers in socialist society, their efforts to fulfil and overfulfil the economic development plans and for an overall rise in production.

Socialist emulation is the chief method for raising labour productivity and improving production through the activity and creative initiative of the working people themselves. Socialist emulation, as Lenin pointed out, is one method by which communism is built.

Lenin formulated the chief principles for the organisation of socialist emulation. They include: publicity of emulation, comparability of results, the dissemination of advanced experience and mutual assistance between those taking part.

A necessary condition for correct organisation of socialist emulation is observance of the principle that workers must have a material interest in the results of their labour.

In competing to improve production and using the best work methods each worker quite justifiably counts on "a better example of the organisation of production" being "accompanied inevitably by a lightening of labour and an increase in the amount of consumption for those who have carried out this better organisation".<sup>1</sup>

Socialist emulation already has a proud history in the USSR. The first ever form of such emulation was Communist Subbotniks<sup>2</sup> during the Civil War. Lenin saw these communist workdays as the first shoots of a new attitude to labour, "the beginning of a revolution that is more difficult, more tangible, more radical and more decisive than the overthrow of the bourgeoisie, for it is a victory over our own conservatism, indiscipline, petty-bourgeois egoism, a victory over the habits left as a heritage to the worker and peasant by accursed capitalism".<sup>3</sup> Since that time,

<sup>1</sup> V. I. Lenin, "Original Version of the Article 'The Immediate Tasks of the Soviet Government'", *Collected Works*, Vol. 27, p. 206.

<sup>2</sup> *Subbotnik*—voluntary work for no wages, performed after working hours or on days off, for the benefit of the Soviet state.

<sup>3</sup> V. I. Lenin, "A Great Beginning", *Collected Works*, Vol. 29, p. 411.



socialist emulation has gone through several stages—shock-working, the Stakhanovite movement, and others. From the first steps in developing socialist emulation in the USSR, it has been guided by the Communist Party.

At present, the movement of shock-workers and collectives of communist labour is broadening. The participants in this movement set out to achieve maximum labour productivity, for communist labour is, above all, the most productive labour. They participate actively in creating and using new machinery and progressive production techniques, fight tirelessly against any technical conservatism.

In order, however, to master the most advanced scientific and technological achievements, constant learning, a steady and systematic extension of knowledge, are required.

Socialist emulation is expanding year by year in the other socialist countries, too. Wherever the power belongs to the people, wherever they work not for capitalists, but for themselves, a new, creative attitude to labour takes shape and enthusiasm for socialist emulation develops.

Emulation is a great motive force behind social development in the socialist countries. It is responsible for the rapid development of the economy and the steady rise in the productivity of social labour. Socialist emulation testifies that, in a society free from exploitation of man by man, there exist new stimuli to the development of production that would have been inconceivable under capitalism. Under the conditions of rivalry, there can be no really broad exchange of experience or comradely co-operation and mutual assistance, i.e., the relations that exist between people in the production process under socialism.

## 2. THE STEADY RISE IN LABOUR PRODUCTIVITY— AN ECONOMIC LAW OF SOCIALISM

### The concept of labour productivity

*Productivity* (fruitfulness, effectiveness) of labour is reflected in the amount of output created by a worker per unit of time, or is measured by the quantity of labour time spent on producing a unit of output.

A rise in labour productivity means savings of live and

embodied (past) labour. Marx and Engels pointed out that "the increase in labour productivity consists precisely in that the share of living labour is reduced while that of past labour is increased, but in such a way that the total quantity of labour incorporated in that commodity declines; in such a way, therefore, that living labour decreases more than past labour increases".<sup>1</sup>

And so, a rise in labour productivity means a rise in the quantity of output produced per unit of time or a fall in the expenditure of labour time required to produce a unit of output.

A steady rise in labour productivity is a major condition for the development of socialist production. Describing the role of labour productivity under socialism, Lenin wrote: "In the last analysis, productivity of labour is the most important, the principal thing for the victory of the new social system. Capitalism created a productivity of labour unknown under serfdom. Capitalism can be utterly vanquished, and will be utterly vanquished by socialism creating a new and much higher productivity of labour."<sup>2</sup>

### The law of the steady rise in labour productivity

A rise in labour productivity is a general economic law operating in all socio-economic formations, but it operates differently under each of them. The way it operates depends directly on the relations of production predominating in society, on the character and state of social production, and the goals on which it is oriented. The operation of this law is limited under capitalism, and labour productivity rises unevenly, and sometimes even falls.

Under socialism, not only private ownership of the means of production, but also the obstacles to a rise in labour productivity are abolished.

In socialist society, a steady rise in the productivity of labour is an objective necessity arising from the very essence of socialist relations of production. "Savings of time", wrote Marx, "just as the planned, balanced distribution of labour time between the various branches of pro-

<sup>1</sup> K. Marx, *Capital*, Vol. III, pp. 260-61.

<sup>2</sup> V. I. Lenin, "A Great Beginning", *Collected Works*, Vol. 29, p. 427.

duction, remains the first economic law on the basis of collective production. It even becomes a law of considerably higher degree."<sup>1</sup>

It follows that, in contrast to capitalist society, where the law of the rise in labour productivity is of no decisive significance, socialist society gives full play to the law of a steady rise in the productivity of labour. The main essence of this law is maximum economies of live and embodied (past) labour, the creation, using the minimum possible labour, of an ever increasing quantity of material wealth necessary for better satisfying the constantly growing requirements of socialist society.

### Factors behind the rise in labour productivity

What are the chief factors on which the rise in labour productivity depends? "This productiveness," wrote Marx, "is determined by various circumstances, amongst others, by the average amount of skill of the workmen, the state of science, and the degree of its practical application, the social organisation of production, the extent and capabilities of the means of production, and by the physical conditions."<sup>2</sup>

The level of labour productivity is determined primarily by the *degree of technical equipment of enterprises*. The more new, up-to-date machinery and mechanisms there are at the workers' disposal in enterprises, the more fruitful their labour will be. The best results in raising labour productivity are achieved by the collectives of those enterprises where there is comprehensive introduction of modern machinery and production techniques in all sections and at all stages of the production process.

If, for instance, new technology is introduced in the chief work sections, with a rise in labour productivity ensuing, all related labour processes must also be mechanised. This applies, above all, to transport operations, handling, quality control, assembly, and other types of work. The mechanisation of such operations, both in industry and agriculture, makes it possible to put a final end to manual

labour and raise average labour productivity indicators many times over.

Comprehensive mechanisation and comprehensive automation of production are the key to the technological transformation of all sectors of the national economy. They usher socialist production into a qualitatively new stage of development and help labour productivity to achieve the highest level in the world.

However great the significance of technology might be in modern production, the chief productive force of society is man himself. For this reason, the level of labour productivity and the possibility of it increasing further largely depend on the *skills and level of technical qualifications* of the bulk of the staff, especially the workers. The labour of the skilled worker is not merely more productive; a rise in qualifications allows the worker to make better use of the technology available and to find ways to improve it.

To a considerable extent, the productivity of labour in enterprises depends on the *organisation of production and labour*.

Any production process is, of course, a totality of all the stages through which an object of labour passes during its processing in individual work sections. These sections must be strictly specialised and work in an organised and smooth manner. In other words, strict organisational co-ordination is required between them and precise servicing of each workplace and each work section must be ensured. This organisational link is accomplished both within individual socialist enterprises and between them. A correct and precise organisation of the whole production process, as well as well-thought-out labour organisation in individual workplaces, cut losses and irrational expenditure of labour time.

The *development of various forms of emulation* within and between enterprises greatly promotes the rise in labour productivity.

The productivity of labour also depends on the *natural conditions*, which, to a considerable extent, determine the level of labour productivity in agriculture and the extractive industries (the coal, oil, iron ore and others).

A rise in labour productivity depends, further, on how payment for labour is organised and how *material incentives* are given to those workers who have achieved the best indicators.

<sup>1</sup> Marx and Engels Archive, Vol. IV, p. 119 (in Russian).

<sup>2</sup> K. Marx, *Capital*, Vol. I, p. 47.



The greater the development of *science* and the broader and more rapid the introduction of the latest scientific and technological achievements into production, the higher is the productivity of labour in society. A comprehensive link between science and material production is only possible in a socialist economic system, where there can be neither open nor concealed competition.

A vital factor behind a rise in labour productivity is a *correct and rational location of production*. On the one hand, the location of production must provide for clearly defined specialisation of individual enterprises and co-operation between them; on the other hand, it must take into account the need for natural resources to be drawn more fully into economic turnover.

A correct location of production reduces inputs of social labour in production, transportation, storage and marketing of material values, while this means a rise in labour productivity.

The most important factor, the decisive one in raising the productivity of social labour, is technical progress in all sectors of the national economy, which is why it is so very important to implement comprehensive mechanisation, automation, and electrification and introduce chemicals into production processes, to improve the organisation of production and labour and raise the professional and technical skills of workers.

Socialism opened up broad opportunities for raising labour productivity, and this indicator's growth rate in the socialist countries is the highest in the world. In 1913, pre-revolutionary Russia's labour productivity in industry was only a ninth of that in the United States; by 1980 the Soviet figure was almost 55 per cent of the US figure. Labour productivity in the USSR is already higher than in Britain and France.

The rise in labour productivity serves as the chief source for expanding the volume of production and the national income. Thus, over the last fifteen years, the USSR has received about 80 per cent of the entire increment in industrial output and over 80 per cent of that of the national income as a result of rising labour productivity. In agriculture, the whole increase in output is achieved on the basis of higher productivity of labour. The 1981-1985 five-year plan for the development of the USSR envisages that 90 per cent of the increment in industrial output

over this period will be due to higher labour productivity.

A rise in the productivity of labour is a fundamental issue in the policy and practice of building socialism, an essential condition for speeding up production growth rates, improving the people's welfare and creating an abundance of material and cultural wealth for the working people. This is why it is so important to take advantage of all the opportunities for raising labour productivity, opportunities that exist in every workplace and enterprise in society.

## REVISION EXERCISES

1. What are the specifics of labour under socialism?
2. What are the advantages of socialist labour co-operation?
3. What is the role of socialist emulation in making production more efficient?
4. What is labour productivity and on what does it depend?

## Chapter XIII

# COMMODITY PRODUCTION, MONEY AND TRADE

### 1. COMMODITY PRODUCTION UNDER SOCIALISM

The need for and specifics of commodity production under socialism

The need for commodity production in socialist society arises from a number of factors. Above all, under socialism, the material precondition for commodity production—social division of labour—is not only retained, but also extended. Commodity production under socialism is predicated by the specific nature of social socialist property, which exists in two forms: public (of the whole people), and co-operative and collective farm property.

In addition, under socialism there is still a certain socio-economic heterogeneity of labour. There are considerable differences between mental and physical labour, differences between skilled and unskilled labour, and also between the labour of the worker and that of the collective farmer, the result being all forms of labour cannot be directly reduced to a single form. This is only possible indirectly, through value. Under socialism, labour is still not a primary necessity of life and material incentives are still required. These and other factors account for the existence of commodity-money relations under socialism.

The Programme of the CPSU states that "it is necessary in communist construction to make full use of commodity-money relations in keeping with their new content in the socialist period".<sup>1</sup> The new content of commodity-money relations under socialism is a result of the fact that socialist

commodity production is carried out by associated socialist producers (the state, co-operatives) on the basis of socialist ownership of the means of production and in a planned, balanced way. Consequently, commodity production under socialism cannot become the same as capitalist commodity production.

Commodity production under socialism is not universal, as it is under capitalism. The sphere of operation of commodity production and commodity circulation under socialism is restricted. Thus, labour power is not a commodity, for it is not bought or sold. The land and its minerals are no longer in commodity turnover, i.e., they cannot be bought or sold either. Neither are socialist enterprises and their fixed assets (machinery, premises, equipment, and so on) bought and sold.

The fundamental change in the nature of commodity production under socialism led to a change in its categories. Many of them, such as the commodity labour power, surplus value, and others that previously expressed the capitalist nature of commodity production, have disappeared altogether, other economic categories of commodity production—the commodity, money, value, price, profit, and credit—have been retained, but they have changed substantially.

Commodity-money relations in socialist society arise, *first*, between the public and co-operative sectors, the latter being represented mainly by agricultural production co-operatives and collective farms. Public industry produces commodities to meet the demand of the co-operative sector for means of production and that of their members for consumer goods. Co-operative associations produce commodities to meet industry's demand for raw materials and the population's for foodstuffs and certain other consumer goods. The exchange of commodities is a necessary form of economic connection between state industry and co-operative agriculture.

*Second*, commodity production and circulation embrace all consumer goods produced in the public and co-operative sectors, as well as by collective farmers on their personal subsidiary plots, and becoming the personal property of the urban and rural population through the system of purchase and sale.

*Third*, commodity relations arise within the public sector in the sphere of the production of means of production.

<sup>1</sup> *The Road to Communism*, p. 536.



Means of production produced by public enterprises (machine-tools, machinery, metal, coal, oil, cement, and so on) circulate between enterprises by means of purchase and sale, and are, therefore, commodities.

*Fourth*, commodity relations arise between the socialist state and other countries through foreign trade turnover.

Commodity production serves socialist society and facilitates the development of its productive forces. With the transition to a single, communist form of people's property and a communist system of distribution, commodity-money relations will become economically obsolete and will die out.

### The use value and value of a commodity

As we have already seen, a commodity has two aspects—*use value* and *value*. These two aspects of the commodity have a totally different significance under socialism than under capitalism.

The capitalist is interested in the value of a commodity as the basis for acquiring surplus value. The use value is produced only in as far as it is the bearer of surplus value.

Under socialism, the state takes both aspects of the commodity into account when implementing the planned management of production.

The use value of a commodity in the socialist economy is of particular significance. Socialist society is interested in increasing the quantity of use values and improving their quality. Under socialism, society not only plans the quantity and types of use values, but also strives to improve the quality of the commodities produced.

The value of a commodity is also of major importance to socialist society. Production is planned in terms of money (value) indicators, as well as physical ones. These indicators are used in order to effect a systematic drop in the value of a commodity, to ensure a continuous rise in socialist accumulation and increasingly satisfy the requirements of the members of socialist society.

In socialist production there is no antagonistic contradiction between use value and value, since there is no contradiction between private and social labour either. This does not mean, however, that there is no contradiction at all

between the use value and value of a commodity under socialism. There is a contradiction, but it is not an antagonistic one; it is not destructive in nature. A particular example of the manifestation of this contradiction is the fact that poor quality output is hard to sell. Sometimes commodities cannot be sold not because they are not necessary, but because their high value does not correspond to their quality, so there is no demand for them. They are not realised at their value because the use value cannot be realised, in which case the price of the commodity is reduced.

The contradiction between use value and value is eliminated in a socialist society through planned management, through improvement of the range and quality of output and a reduction in its value.

The twofold character of the commodity is, as we know, determined by the twofold character of the labour producing it. The labour spent on producing commodities is both abstract and concrete labour at the same time. Under socialism, abstract and concrete labour are two aspects of directly social labour.

The twofold character of labour in capitalist society expresses the antagonistic contradiction of commodity production—that between social and private labour.

It is a completely different matter in socialist society. Since the socialist economic system is based on social ownership, and the system of wage labour has been eliminated, the contradiction between the social and private character of labour no longer exists in socialist society. Under socialism, labour is not private, but directly social labour. The labour of people in socialist society is organised in a planned, balanced way on a countrywide scale. As a consequence of this change in the character of socialist labour, individual labour in the production process in a plant or factory, on a collective or state farm, etc., appears as directly social labour, so there is no antagonistic contradiction between concrete and abstract labour.

Since directly social labour is not yet sufficiently developed at the socialist stage, however, there is still a need to express it indirectly in terms of value and its forms.

## The magnitude of the value of a commodity

The magnitude of the *value of a commodity* is determined under socialism by the quantity of *socially necessary labour time* spent on producing it. By socially necessary labour time we mean the average labour time spent by enterprises producing the bulk of the commodities in the given industry, and the bulk of commodities are produced under average production conditions.

The time actually spent per unit output in individual enterprises constitutes individual labour time.

Under capitalism, the socially necessary time is set spontaneously, on the market. In the socialist economy, the state, proceeding from the objective economic conditions, plans the growth of labour productivity, sets the rates for labour expenditure and thus reduces the amount of socially necessary labour time.

In order to reduce the value of a commodity, the amount of labour spent on producing it must also be reduced. How can this be achieved?

The magnitude of the value of a commodity is influenced by labour productivity. The higher the productivity of labour, the lower will be the unit value of the commodity, so the campaign to raise productivity is one to reduce the value of the commodity.

The value of the commodity is also affected by the inputs of raw and other materials, and so on. The value of a commodity is made up of the inputs of live and embodied labour. Embodied labour is past labour spent on raw and other materials, machine-tools, premises, and so on. Thus, in order to reduce the value of the commodity, there must be economies of both live and embodied labour.

In the socialist economy, such measures as a rapid dissemination and introduction of advanced methods of labour and production, and the spread of technological achievements do much to cut the socially necessary labour time required per unit output. Exchange of experience and technical information, and comradesly mutual assistance make it possible rapidly to pull lagging enterprises up to the level of advanced ones.

## 2. MONEY AND ITS FUNCTIONS IN SOCIALIST SOCIETY

### The essence of money

The need for money under socialism results from the existence of commodity production and circulation. The value of a commodity created by social labour in the production process is expressed in money form, so the essence of money consists in being the universal equivalent, i.e., in expressing the value of all other commodities.

Yet money as the universal equivalent has a qualitatively new content under socialism. Under capitalism, money is an instrument for the exploitation of man by man, an instrument for the domination of some people over others, but in socialist society money is an instrument for stimulating growth and improving socialist production. Under the conditions of socialism, money expresses socialist relations of production and cannot become capital. It is used as a universal means of account and control over production and distribution of the social product; it is an economic instrument for planning the national economy.

The fundamental change in the nature of money and its socio-economic content in socialist society is manifested in a change in its functions.

### The functions of money

Money fulfils the primary function of being a *measure of the value of a commodity*. This function consists in money being used to measure the value of all other commodities. The function of measure of value is fulfilled by the money commodity alone, which itself has value. This commodity is gold.

The value of a commodity, expressed in terms of money, is, as we already know, called the price of the commodity. Soviet money takes the form of bank and treasury notes to represent gold. The basic monetary unit in the USSR is the rouble, which serves as the price standard. A rouble is made up of 100 kopecks and represents 0.987412 grammes of pure gold.

The function of money as a measure of value makes it possible, under socialism, to control the measure of labour



and the measure of consumption. In this function, money is used by the state in planning commodity prices.

In the socialist economy money fulfils the function of a *means of circulation*. It services trade, is used as a means of commodity circulation, which is planned and regulated by the socialist state.

Under socialism, money is also a *means of payment*. This function of money is manifested primarily in the wages paid to factory, office and professional workers, as well as in money payments to collective farmers, repayment of loans, in paying taxes, and for municipal services, etc.

Money as a means of payment is used by the state in organising financial and credit relations in the national economy, and for exercising financial supervision over the activities of socialist enterprises.

Under socialism, money acts as a *means of socialist accumulation and savings*. Money fulfils this function in the form of the banking and use of the temporarily idle monetary means and incomes of the working people, as well as the monetary accumulations of socialist enterprises and various organisations.

Under the conditions of socialism, monetary accumulations do not engender exploitation of man by man as they do under capitalism.

In socialist society, gold performs the function of *world currency*, in its role of an international means of payment, a universal purchasing medium and a reserve fund.

Such are money's functions under socialism. The functions of money are not isolated from one another but are an inseparable unity, which manifests the essence of money as a universal equivalent.

### Money circulation under socialism

Money can only fulfil its role as universal equivalent properly on the condition that the quantity of it corresponds to the national economy's actual requirements for means of circulation and payment.

The quantity of money necessary for circulation is determined mainly by the *sum of the prices of the commodities in circulation, divided by the rate of turnover of money*.

Observance of a correct balance between the sum of commodity prices and the quantity of money in circulation is

one of the major conditions ensuring the normal running of the economy. Proceeding from the law of money circulation, the state regulates money circulation and makes planned use of it to develop the national economy. Regulation of money circulation takes place through the planning of public finances, and through credit and accounts plans.

One of the basic conditions affecting money circulation is the ratio of the population's incomes, on the one hand, to the volume of commodity turnover, and also paid services rendered to the population, on the other. Proceeding from the balance of money incomes and outlays of the population, the State Bank's accounts plan is drawn up and approved by the government.

The accounts plan of the State Bank shows all the proposed inflows into the State Bank: the proceeds of trading organisations (over four-fifths of all deposits), the proceeds of municipal enterprises, transport, communications, taxes, deposits in savings banks, and so on. At the same time, the accounts plan reflects the money paid out by the bank in the form of wages and payments for the labour of collective farmers, payment for produce purchased from collective farmers, pensions, allowances, and the like. The ratio of money credit to debit according to the accounts plan allows the State Bank to regulate the amount of money in circulation.

The planned, balanced organisation of money circulation under socialism helps to consolidate it and make money stable.

The stability of money under socialism is ensured not only by the gold reserves, but to an even greater extent by the state controlling enormous quantities of commodities put into circulation at firm, stable prices. As a result, Soviet currency is the most stable in the world. As socialist production develops, the Soviet rouble becomes increasingly firm.

### 3. THE LAW OF VALUE IN THE SOCIALIST ECONOMY

The existence of commodity production under socialism means that the *law of value* operates in the socialist economy.

The essence of the law of value consists in the produc-

tion and exchange of commodities corresponding to the quantity of socially necessary labour embodied in them.

The law of value began to operate at the same time as commodity production appeared. As commodity production developed, the sphere of operation of the law of value expanded. In the capitalist economy, it regulates production and the distribution of capitals and labour power by sector of production.

Under socialism, the law of value does not have the same scope as in capitalist society; its sphere of operation is limited. This is because socialist ownership predominates under socialism and the economy is run according to a plan.

In socialist society, the law of value does not regulate the distribution of the means of production and labour between the sectors of the national economy. This is done by the state planning organs on the basis of the operation of the law of the planned, balanced development of the national economy. Under socialist conditions there is a change not only in the sphere of operation of the law of value, but also in the way it operates. It no longer functions as an alien force dominating people.

The law of value must be taken into account in planning the socialist economy, and the application of this law in price formation is of major significance. The law of value operates through the price mechanism, but the prices of goods are not set spontaneously under socialism, as they are under capitalism. They are planned. In setting prices, the socialist state proceeds from the socially necessary labour spent in producing them, i.e., from value. Thus, the state applies the law of value in practice.

Governed by national economic considerations, the socialist state sets the prices of goods to include varying degrees of divergence from their value. Using price policy, the state can use part of the incomes created in some industries rapidly to raise the level of other industries. Consequently, the divergence of prices from value in socialist society is a process planned in advance by the state. When setting consumer goods prices, for instance, the state takes account not only of value, but also the demand to supply ratio.

The socialist state makes use of the operation of the law of value to encourage production growth, raise labour productivity, reduce the costs of output and ensure that production is profitable.

## 4. TRADE UNDER SOCIALISM

### The essence and role of trade under socialism

Since the products of labour in socialist society are commodities, *commodity circulation* is bound to exist as an intermediary link between production and consumption. Commodity circulation within the public sector, covering means of production, has come to be called the supply of materials and machinery, and is carried out according to a plan. Commodity circulation of consumer goods and services to the population takes the form of *trade*. Trade under socialism makes it possible to establish a planned link between town and country, between socialist production and the population's consumption, in order to satisfy increasingly the working people's growing requirements. It differs fundamentally from capitalist trade.

Socialist trade is based on social ownership of the means of production, so it is planned in the socialist countries. The state draws up a plan for the volume of commodity turnover, prices, circulation costs and other such indicators. Under socialism, trade does not pursue the goal of enriching some people at the expense of others and does not experience the marketing crises typical of capitalist trade.

Trade plays a major role in the development of socialist production, satisfies the requirements of the home market, helps to improve the quality of goods, and so on.

Trade is a major instrument for implementing distribution according to work done. Through the medium of socialist trade, the working people exchange the money they receive for their labour for the consumer goods and services they require. Trade under socialism exerts an active impact not only on production, but also on consumption. Trade facilitates the introduction of new commodities into consumption, induces rational new demands and tastes in the population.

Trade is also a vital factor in consolidating the credit, finance, and monetary systems.

### The forms of trade under socialism

Trade under socialism, as the USSR's experience has shown, takes three forms: state, co-operative and collective farm trade.



*State trade* is the highest stage in the socialist socialisation of commodity turnover. State trade is carried out by trading organisations whose material and financial means belong to the state.

State trade plays the leading role in the entire trading system under socialism, and a considerable part of the goods produced by public enterprises and a significant part of the agricultural produce in commodity turnover pass through it. In the USSR, for instance, in 1980 the share of state trade in total retail turnover was 69.8 per cent. State trade serves primarily the populations of towns and industrial centres.

*Co-operative trade* is carried out mainly by trading enterprises of consumer co-operatives. In the Soviet Union, these account for up to 90 per cent of all co-operative commodity turnover. Consumer co-operatives supply chiefly the rural population with manufactured goods, procure agricultural products and sell them on commission. Co-operative trade in the USSR constituted 27.5 per cent of retail turnover in 1980.

The systems of state and co-operative trade include public catering enterprises—public catering kitchens, canteens, restaurants, buffets, and so on. The share of state and co-operative trade in the USSR in 1980 was 98.8 per cent of total commodity turnover in the country. State and co-operative trade constitute the *organised market*, in addition to which there exists an informal market in the form of collective farm trade.

*Collective farm trade* is carried out by collective farms and farmers, who sell their produce surpluses to the population at prices that respond to supply and demand. The level of these prices is influenced economically by state and co-operative trade, however.

As state and co-operative trade grow, the significance of the informal market decreases. In the USSR, the share of collective farm trade in the total volume of commodity turnover in 1940 was 14.3 per cent, in 1955 was 8.7 per cent and in 1980 only 2.7 per cent.

There are two forms in which the trading process is organised—wholesale and retail trade.

*Wholesale trade* is the purchase and sale of large batches of commodities for subsequent sale to the actual consumers. Enterprises and trading centres, which settle their accounts by means of cashless flows, participate in this processes.

*Retail trade* is the sale of consumer goods to the working people for cash or credit. It is chiefly consumer goods that are realised through retail trade, as well as certain items of a production significance—small tools and instruments, building materials, and the like. Retail trade is carried out by department stores, food shops, general stores, specialised and other shops.

## Retail prices and costs of circulation

There are two forms of retail price in trade corresponding to two forms of market: the prices on the organised market and those on the informal one.

In the USSR, prices on the organised market are wholesale prices in industry and in trading organisations, retail prices in state and co-operative trading enterprises and purchase prices for marketable output sold to the state by collective farms and farmers.

*State retail prices*, i.e., those at which the state sells manufactured goods and foodstuffs to the population, play the leading role in the socialist trade system. They are set in a planned way by the state for each type of commodity.

For most consumer goods, there exist uniform retail prices for the whole of the USSR, and there is a differentiation of prices according to region, zone and season for certain foodstuffs.

Retail prices on the organised market are not subject to random fluctuations. They do not change spontaneously, but are altered at the time, in the direction and to the extent the state considers necessary for resolving various economic and political tasks. The state does not, however, set the prices arbitrarily. It takes account of the value of commodities.

Trade entails circulation costs, but in socialist trade these are totally different from capitalist ones.

*Circulation costs* under socialism are the outlays of trading enterprises and organisations on bringing the goods from producer to consumer.

They consist of the wages of people employed in trade, transport costs, expenditures on maintaining trading and storage facilities, on packaging, office expenses, interest on credit, and so on. The level of commodity turnover is planned by the state.

Socialist trade is characterised by a drop in the costs of circulation. Thus, in the USSR, circulation costs in 1928 constituted 19.7 per cent of the volume of commodity turnover, but the respective figures for 1940 and 1980 were 8.2 and 6.7 per cent.

The reduction in circulation costs is a generalising quality indicator of the operation of trading organisations, and serves as a major source of socialist accumulation.

The level of circulation costs in socialist trade is considerably lower than in the capitalist countries. In the USA, for instance, the costs of circulation comprise up to a third of the sum of retail prices.

## Foreign trade

In the socialist countries, alongside domestic trade there exists foreign trade, which makes it possible to use the advantages of the international division of labour.

In the capitalist countries, foreign trade is carried out mainly by capitalist monopolies, while foreign trade in the socialist countries is a state monopoly. The Soviet authorities, for instance, declared the state monopoly of foreign trade in one of their first decrees. The monopoly of foreign trade means that all operations involved in importing and exporting goods are carried out by the state.

The monopoly of foreign trade helps to ensure the economic independence of the socialist countries from the capitalist world, protecting their home markets from foreign capital. At the same time, it is an instrument for economic co-operation with the other countries of the world socialist system.

Foreign trade is an important form of economic link with the countries of the capitalist world, too. The socialist countries do everything they can to expand their mutual trade on the basis of the international division of labour, and also the trade with the capitalist countries. The foreign trade of the socialist countries is based on the principles of respect for national sovereignty and full equality of the parties and mutual benefit, without any political conditions.

The continuity of the socialist economy's development in the USSR and the other socialist countries entails a steady expansion of their foreign trade turnovers.

## REVISION EXERCISES

1. What are the reasons for and specifics of commodity production under socialism?
2. Describe use value and the value of a commodity, concrete and abstract labour under socialism.
3. What determines the magnitude of the value of a commodity?
4. What factors cause a drop in the value of a commodity?
5. What is the essence of money under socialism?
6. Describe the functions of money.
7. How is the stability of money ensured under socialism?
8. Describe the operation of the law of value under socialism.
9. What are the essence and role of trade under socialism?
10. What are the forms of trade under socialism?
11. What are wholesale and retail prices and circulation costs?



## Chapter XIV

# DISTRIBUTION ACCORDING TO WORK DONE AND THE FORMS OF PAYMENT FOR LABOUR. THE SOCIAL CONSUMPTION FUNDS

## 1. THE ECONOMIC LAW OF DISTRIBUTION ACCORDING TO WORK DONE

Each mode of production has its own corresponding mode of distribution. The relations in production determine those in distribution.

Under capitalism, distribution is in the interests of the exploiting classes, who appropriate, in the form of surplus value, the greater part of the social product created by the workers' labour. Distribution is not according to work done, but according to capital.

*Under socialism, the distribution of the aggregate social product is the point of departure and material basis for socialist extended reproduction. Part of the aggregate social product is intended for replacing the means of production used up. Another part constitutes the national income, which is distributed in the interests of all society. The part of the national income created by necessary labour is distributed through wages, depending on the quality and quantity of labour. This is the chief form of distribution.*

The character of distribution in developed socialist society is fixed in Article 14 of the Constitution of the USSR, which states: "The source of the growth of social wealth and of the well-being of the people, and of each individual, is the labour, free from exploitation, of Soviet people."

"The state exercises control over the measure of labour and of consumption in accordance with the principle of socialism: 'From each according to his ability, to each according to his work.'"

In socialist society, distribution according to work done is an objective necessity, resulting from the fact that production is based on social ownership of the means of production. At the stage of socialism, the productive forces have not yet attained a sufficiently high level to ensure the possibility of the material wealth being distributed among people according to their requirements. Moreover, labour has not yet become a primary necessity of life; it is still just a means of living and, consequently, requires a corresponding remuneration. Finally, under socialism there are still considerable differences between mental and physical labour, as well as between skilled and unskilled labour.

Under socialism, the only factor determining a person's position in society and his welfare is *work*. In accordance with this, the only possible measure of the distribution of consumer goods is the quantity and quality of the work performed by each member of society.

*Distribution according to work done is an economic law of socialist society.*

Lenin considered distribution according to work done as a mighty lever furthering the growth of production, improvement of the quality and productivity of labour and development of the working man's initiative.

Distribution according to work done is one of socialism's primary advantages over capitalism. The distribution of vital boons according to work done excludes the possibility of unearned income and parasitism, which withdraw tremendous resources from production and satisfaction of the working people's requirements. It is a major stimulus to the development of production, opening up unlimited scope for development of the people's abilities. Lenin said that the principle that "he who does not work, neither shall he eat" contains "the basis of socialism, the indefeasible source of its strength, the indestructible pledge of its final victory".<sup>1</sup>

The law of distribution according to work done means the need to: (1) distribute the individual consumption fund in accordance with the quantity and quality of the work done for society, thus ensuring the working people's interest in the fullest, most rational use of their labour time; (2) pay higher wages to skilled workers than to

<sup>1</sup> V. I. Lenin, "On the Famine", *Collected Works*, Vol. 27, p. 392.

unskilled ones, for equal labour time, thus making the working people interested in improving their skills and cultural and technical level; (3) introduce higher material incentives for working under difficult working conditions (in the iron and steel, coal and certain other industries) compared with working under normal conditions, thus ensuring material compensation for the expenditure of labour.

And so, the economic law of distribution according to work done expresses the need for the material wealth to be distributed in direct dependence on the quantity and quality of the work performed by each person and for equal payment to be received for equal labour by all people, irrespective of their sex, age, race and nationality.

The economic law of distribution according to work done continues to operate throughout the period of the building of communism. The transition to communist distribution will be effected when there is an abundance of material and cultural boons, and labour becomes the primary vital requirement.

Under distribution according to work done, only part of the aggregate social product is distributed.

In his work, *A Critique of the Gotha Programme*, Marx pointed out that, for socialist society to be able to function and develop normally, it would be necessary to subtract from the aggregate social product: (a) expenditures on replacing means of production consumed; (b) a certain part for expanding production; (c) reserves or an insurance fund; (d) the costs of management and maintenance of schools, hospitals, etc.; (e) a fund for maintaining the non-able-bodied.

The part of the aggregate social product required for the country's defence must also be subtracted.

Consequently, it is the part of the aggregate social product making up the individual consumption fund that is distributed according to work done.

The part of the newly created products of labour that goes into the personal consumption fund for workers in the sphere of material production is called the *necessary product*, while the labour that creates this product is called *necessary labour*.

The part of the newly created products of labour in the sphere of production and services over and above the necessary product goes into the social fund (after expendi-

tures to cover the means of production used up have been subtracted), and is called the *surplus product*, the labour that creates this product is called *surplus labour*. Under socialism, the surplus product created by surplus labour goes to satisfy the requirements of society as a whole. It is used to ensure a continuous growth and improvement of production, to form insurance and reserve funds, to cover expenditures for the country's defence, and satisfy the material requirements of the workers in the non-productive sphere. Through the social funds, which grow by the year in both absolute and relative terms, the workers receive a growing share of the surplus product.

Under socialism, the surplus product is not used for the benefit of individuals, but for the satisfaction of the requirements of society as a whole and of each working person. It is not surplus value, for there is no exploitation and no exploiting classes.

In socialist society, between the necessary and surplus product there are none of the antagonistic contradictions inherent in capitalist society. Here the surplus product is also necessary for the workers in material production, since it goes to satisfy the requirements of all the working people and is used for the progressive development of social production.

Distribution according to work done ensures *people's material interest in the results of production*. It furthers the growth of labour productivity, a rise in workers' skills, and improvement of production techniques; it also plays a major educative role, accustoming people to socialist discipline and making labour both universal and obligatory.

Material interest is necessary under socialism because labour has not yet become a primary necessity of life for all members of society. The vestiges of capitalism in people's consciousness have not yet been completely rooted out. Alongside the vast majority of workers, who conscientiously fulfil their duty to society, there are still a few people who do not do so and who violate labour discipline.

Implementation of the principle of material interest ensures the fostering of a communist attitude to labour and is an important instrument in the struggle against the survivals of the past in people's consciousness, against the vestiges of the old attitude to labour.

It also excludes any levelling in the distribution of the material wealth. A level distribution of products is incom-



patible with socialism. It follows from the economic law of distribution according to work done that there must be a resolute fight against levelling. Petty bourgeois attempts to attribute to Marxism-Leninism a point of view of absolute equality are intended to distort Marxist-Leninist science.

By equality under socialism Marxism-Leninism means not a levelling in the sphere of personal requirements and living (equality of consumption), but social equality, i.e., equal relations to the means of production, equal liberation of all the working people from exploitation, equal abolition, for all, of private ownership of the means of production, an equal right to work and to receive vital requirements in exchange for this labour.

Thus, socialism presupposes not a levelling, but distribution according to work done, which is carried out in two basic forms: that of the wages of factory, office and professional workers and that of the payment made for the labour of those working in collective farm and co-operative enterprises. The two forms in which the law of the distribution according to work done is implemented are determined by the difference between the two forms of ownership of the means of production: state ownership and collective farm and co-operative ownership.

## 2. WAGES UNDER SOCIALISM

### The essence and organisation of wages

The existence of commodity production and the law of value under socialism account for the need for the money form of wages, which allows a flexible and differentiated determination of the worker's share in the social product, depending on the quality and quantity of his labour.

Under socialism, labour power is not a commodity; it is not bought or sold, so has no value or price. As a result, wages are not a form of the value or price of labour power; they are a form of the distribution of the material wealth according to work done.

Wages under socialism are the share of the social product, expressed in money terms, that covers the bulk of the expenditure of necessary labour and they are paid by the state to every worker in public socialist enterprises in

accordance with the quantity and quality of the work performed.

The level of wages under socialism is determined in a planned, balanced way by society, proceeding from the level of production achieved. The state decides the size of the fund for distribution according to work done, and thus is used for personal consumption by factory, office and professional workers in the form of wages, and also decides the rate at which this fund should grow, considering both personal and social interests.

The socialist state uses wages as a vital lever for raising labour productivity and workers' skills and for ensuring the priority supply of labour power to the key sectors of the economy. Wages make it possible to find the correct combination of the material interests of the working people and the interests of the state, of the people as a whole.

Wages are made dependent on the worker's skill level, the character and complexity of his job.

The system for calculating wages under socialism must be simple and clear, so that every factory and office worker can readily understand it.

The chief elements of the organisation of wages under socialism are the *rating of labour and a job grading system*.

The *rating of labour* consists in the fixing of standard times for the fulfilment of particular jobs or the quantity of output per unit of time.

The rating of labour in socialist enterprises differs basically from that under capitalism, which serves to increase profits through greater exploitation of the workers.

In socialist society, labour rating is used for better organising labour and production to meet the demands of the latest achievements of science and technology.

The basis for correct rating is provided by technically justified output standards or rates, calculated on the fullest possible utilisation of technology and the achievements of advanced workers and production innovators. Technically justified standards are progressive ones that take account of the achievements of the best workers, but they are not based on outstanding individual achievements.

Progressive, technically justified standards are oriented on workers whose labour productivity is above average,

but they are attainable by all workers, so are quite realistic.

Improvement of production leads, in time, to originally progressive, technically justified standards becoming obsolete and therefore requiring revision. The purpose of such a review is to ensure a rapid growth of labour productivity compared with that of wages and to establish the correct proportions in the payment for labour.

A review of output standards manifests a combination, characteristic of socialism, of social interests with the personal interests of the individual working man.

A major role in the correct organisation of workers' wages belongs to the *job grading system*.

The socialist state uses the job grading system to differentiate wages depending on the character, quality and conditions of work, the branch of production, region of the country, etc. Centralised regulation of the wages of factory, office and professional workers is accomplished through the job grading system.

The job grading system consists of three components: (1) a skill manual, which serves to grade jobs (depending on their complexity) and skills of workers; it contains a break-down of jobs into grades and corresponding wage rate grades of workers; (2) a rate schedule consisting of a scale of differentiated wages for work of different skills; the number of grades and the correlation of the wages between them is determined by the specifics of the given industry; (3) a wage rate distribution scale determining the size of wages for work in Grade 1.

Since correct job grading and differentiated wages are a major incentive to increase labour productivity and workers' skills in socialist enterprises, the job grading system is constantly being improved.

Of major significance in the organisation of wages is the fixing of the wage fund.

The *wage fund* is the total sum of wages of factory, office and professional workers, fixed by the state under a plan, for distribution according to work done over the given period of time (year, month, and so on). This fund is set for the economy as a whole, for the constituent republics, ministries and departments, individual industries and enterprises.

The forms of wage organisation change and develop as socialist society develops.

Hence the need for constant improvement of the wage system and for the defects that emerge to be eliminated.

Improvement of wages allows even fuller use to be made of the law of distribution according to work done and, on this basis, to raise even further the creative initiative and labour activity of the factory and office workers in developing socialist production.

## The forms and systems of wages

There are two main types of wages: piece wages and time wages.

*Piece wages* are determined by the quantity of finished output produced by the individual worker and facilitate the combination of social interests (higher labour productivity) with the personal interests of each worker (higher individual wages).

In socialist industry a whole series of piece rate systems are used:

- a) direct piece rates, when all output is paid for at the same piece rate;
- b) incentive piece rates, when each item produced above the norm is paid for at a higher rate than within the limits of the set norm, and the rates grow progressively;
- c) bonus-piece rates, when the usual piece rates are applied to the entire output, but a bonus is paid for improved quality, including savings of raw materials, fuel, and the like.

Piece wages are paid on an individual or collective basis. The size of an individual piece wage is directly dependent on the individual worker's output. Collective piece rates (which are applied when the working conditions make it impossible to calculate the individual worker's output) depend not only on the results of the individual's work, but also those achieved by the whole team. In order to make workers have a greater material interest in the results of their work, team piece rates are combined with individual piece rates. Thus, when the wages of each worker are being calculated, account is taken not only of the number of hours worked, but also the individual team members' skills (wage rate grade).

In addition to piece wages, *time wages* are also paid, time wages depend on the amount of time worked and the



worker's skills. There is no direct connection between the results of the worker's labour and his wages.

Time wages are paid for jobs that cannot be rated and calculated. In order to increase the stimulating role of time wages, a time and bonus system has become widespread in the USSR. Under this system, the size of the workers' wages depends not only on the amount of time worked, and the individual's qualifications, but also on the quantitative and qualitative results of his labour.

For instance, the time and bonus system is applied in the payment of skilled workers employed in highly mechanised and automated production sectors and in operating equipment. As comprehensive mechanisation and automation of production processes is accomplished, time and bonus rates will become increasingly widespread.

Time wages are usually paid to the heads of enterprises, and to engineers, technicians and office workers on set wages. These set wages are fixed in accordance with the economic law of distribution according to work done.

In order to enhance the material interest of management, engineering, technical and office staff, there exists a bonus system. Bonuses are paid, in particular, for fulfilment and overfulfilment of output plans provided the set product range has been observed and the costs of production reduced.

### The rise in wages and real incomes under socialism

The level of money wages in the socialist economy is inseparably linked with the rise in labour productivity: as the latter rises, so, steadily, do money wages.

The measures taken by the Communist Party of the Soviet Union and the Soviet Government have made it possible, recently, to raise average wages in industry, construction and transport, and in state-run agricultural enterprises. The wages of workers in education, the health service, housing and municipal services, trade, public catering and other ancillary industries have also been raised.

Payments out of the material incentive fund of enterprises do much to improve the material wellbeing of the working people. In 1970, the average monthly wage of factory, office and professional workers in the USSR was, for

the economy as a whole, 122 roubles, an increase of 51 per cent since 1960, when the average had been 80.6 roubles a month. In 1980 the average wage was 168.5 roubles a month. In 1985 it will be 190-195 roubles.

What accounts for this rise?

First, there have been major structural shifts in the composition of the labour force. In the course of scientific and technical progress, among the numbers employed there is an increase in the share of scientists, engineers and technicians, and factory workers of higher grades, so, correspondingly, the share of junior service personnel is falling. This leads to a rise in average wages.

Second, the gap between the minimum and maximum wages is closing, owing to a direct increase in the wage rates for low and average income workers.

Third, the wages of many factory and office workers are growing owing to bonuses paid out of enterprise profits, while those of piece rate workers owing to their overfulfilling output standards.

The steady rise in wages is clear evidence of the advantage of socialism over capitalism.

Satisfaction of the constantly growing material and cultural requirements of the working people under socialism is clearly expressed in the growth of not only money wages, but also real wages.

*Real wages* are determined by the quantity of consumer goods and services a worker and his family can acquire on his money wage.

A vital factor behind the growth of real wages is, as already mentioned, the rise in average money wages. At certain stages, an important role can be played by a drop in or abolition of certain taxes on the population. Another important factor in the rise in real wages is an improvement in the supplies of consumer goods at fixed prices to towns and industrial settlements through state and co-operative trading outlets. All these factors lead to a steady rise in real wages and an improvement in the material and cultural level of the working people.

One clear expression of the rise in real wages in the USSR is the increase in the consumption of the most important commodities by the families of factory, office and professional workers, in fact by all the people.

From 1940 to 1980, the sale of foodstuffs to the working people through the state and co-operative retail net-

works measured by 660 per cent. The rise in non-foodstuffs was more than 16 times over this period.

The planned, balanced rise in real wages is furthered by the entire policy of the socialist state—to reduce income tax rates, pay child allowances to low-income families, raise pensions, and other such measures.

The standard of living of the working people in socialist society is not only determined by their wages: many of people's requirements are satisfied by the social consumption funds.

### 3. PAYMENT FOR WORK ON COLLECTIVE FARMS

The payment for labour on Soviet collective farms, as in public enterprises, is accomplished on the basis of the law of distribution according to work done, i.e., to the quantity and quality of the work done by each member of the co-operative in collective economy.

At the same time, the payment for the labour of collective farmers is characterised by certain specifics arising from the fact that a collective farm is an isolated socialist enterprise based on co-operative and collective farm property.

The collective farm is run by the farmers' collective labour, which is organised in a planned way and is an integral part of the aggregate labour of socialist society as a whole.

The results of collective production, the volume of collective farm incomes and the welfare of each member of the collective farm depend on the efficiency of the farmers' labour activity and a correct organisation of their labour.

For a long time, the economic law of distribution according to work done was implemented on collective farms through the use of the *workday unit*. This was a specific economic category used for determining the collective farmer's labour input into the collective economy and his participation in the individual consumption fund. The workday unit was used to calculate the quantity and quality of the labour of the collective farmers employed doing various jobs. By means of the workday unit, the labour of the collective farmers received a social assessment. At the same time, however, it was a measure of the distribution among collective farmers of the part of the collective

farm's physical and money incomes that was allocated (after fulfilment of obligations to the state and formation of the social funds of the collective farm) for distribution according to work done. The labour spent on the collective economy and taken into account in workday units was paid for in kind (in produce) and money, a high proportion being paid in kind.

The need for the workday unit to be used arose because the collective farms were unable to pay guaranteed wages. The economic might of the farms did not suffice to ensure the necessary funds for guaranteed wages on a scale set in advance.

As collective farm production developed, the shortcomings in the workday unit began to make themselves felt: the remainder of the physical and money incomes of the collective farms was distributed according to workday units, so the members of the collective farms could not determine in advance, when carrying out a particular job, how much they would ultimately be paid for their labour. They only got to know it late in the year. This weakened their material interest in the results of their labour.

Improvement of the organisation of production and farming methods on collective farms, a rise in the efficiency of collective farm production and in the revenues of the farms, provided the economic foundations for the workday unit gradually to die out and be replaced by money wages for the collective farmers' labour.

Initially, the collective farms began going over to seasonal and monthly advances to their members, i.e., part of the incomes was distributed according to workday units, without waiting for the end of the economic year. Later, these advances were replaced by more regular and stable payment in the form of produce and money in amounts fixed in advance.

Today, the higher incomes of collective farms have created the necessary economic conditions for introducing a monthly cash payment for the collective farmers' work. The money form of payment is used as the only measure for the accounting and distribution of produce.

By ensuring a corresponding rise in their social funds, collective farms guarantee every collective farmer a certain payment in accordance with his labour input into collective farm production. The guaranteed cash payment for the collective farmers' work is not yet a wage in the sense



that it exists in the public sector. The wages of factory, office and professional workers in state enterprises and establishments are guaranteed by the state, while those of collective farmers are guaranteed by the collective farm.

Wages in the public sector presuppose the consistent implementation of the principle of equal pay for equal labour throughout the national economy; the measure of labour and that of distribution are the same for everyone. The money payment for labour on collective farms ensures a single measure of labour and distribution only on the given collective farm; its level differs substantially from one zone to another and one region to another, and in some cases even between adjacent collective farms.

The guaranteed payment for the collective farmers' labour considerably raises their material interest in the development of their collective economy. Material interest, apart from the basic payment, also envisages additional payment for an increase in agricultural output, an improvement in quality and reduction in production costs. In addition to payment for work done (basic and supplementary), collective farmers also enjoy benefits from the social consumption funds, which grow by the year, and this raises the material and cultural level of the collective farm peasantry.

The development of socialised production entails steady rise in the standard of living of all categories of working people. The programme provision of the Communist Party of the Soviet Union "everything for the sake of man, everything for the benefit of man" is being implemented increasingly fully and consistently.

#### 4. THE SOCIAL CONSUMPTION FUNDS

Under socialism the principle of the distribution of the material and intellectual boons according to the quality and quantity of work done is the chief, but not the only one.

A substantial part of the material and intellectual requirements of the working people are satisfied out of the social consumption funds.

The *social consumption funds* constitute that part of socialist society's consumption fund that is directed in physical and money form by the state, as well as by public, co-operative and collective farm enterprises for the collective

and individual satisfaction of the requirements of society's members, as a rule largely independently of the results of their labour.

The social consumption funds express the relations between society as a whole, the work collective and each individual member of society with respect to the part of the national income going for personal consumption. They are called on to ensure that the socialist state exerts a planned impact on the formation of the structure of the population's expenditures and consumption in order to level out the socio-economic positions of the members of society.

The social consumption funds give representatives of all social groups an opportunity to receive an education, have access to the nation's cultural values, develop their abilities and, therefore, to occupy a position in socialist production and society in accordance with these abilities.

The social consumption funds are divided into two parts: the *first* part consists of the funds that form the incomes of the population (allowances, pensions, grants, paid holidays, and so on), and are a source of personal consumption. This part of the social consumption funds retains certain features of distribution according to work done. Thus, some payments and subsidies are granted to the working people in a specific ratio to their wages (for instance, pensions depend on wages).

The *second* part is made up of funds going for the free, collective satisfaction of society's needs (education, health care, cultural services, privileged use of apartments, and the like). This part of the social consumption funds is distributed independently of participation in labour and enjoyed by all the people.

Most of the social consumption funds come out of the state budget. The comparatively smaller part is financed by enterprises (associations) out of the fund for socio-cultural measures and housing construction. On collective farms, part of the net income goes to form the funds for socio-cultural measures, social security and material assistance for collective farmers.

During the building of socialism and communism, the range of requirements fully and partially met out of the social consumption funds expands continually. This is connected with the expanding opportunities for developed socialist society to satisfy fully the working people's growing needs.

The social consumption funds in the USSR stood at 4.6 billion roubles in 1940, but 116.5 billion in 1980. In 1985 they will reach 138 billion, i.e., an increase of 20 per cent over five years. Payments and subsidies out of the social consumption funds were 24 roubles per capita in 1940 and 438 roubles in 1980—i.e., an 18-fold increase. In 1985 they will reach almost 500 roubles.

In the future, the existing social consumption funds will grow into communist ones, meaning a change in their structure and forms of distribution. They will be used to satisfy people's requirements, which will become immeasurably broader, and there will be greater collectivism in the satisfaction of these requirements.

For the bulk of the population, payments and subsidies out of the social consumption funds are a supplement to their basic income received in accordance with the quantity and quality of their labour. They increase the real incomes of factory, office and professional workers by 25 per cent.

Taken all together, the benefits received by the people on the basis of their labour incomes, in accordance with the quantity and quality of their labour, the payments and subsidies out of the social consumption funds, and incomes from personal subsidiary holdings, characterise the level of the population's real incomes. Under socialism, real incomes are constantly growing. For instance, in 1980, real incomes per worker were four times higher than in 1940, while those per collective farmer were 6.9 times greater. In recent years there has been a substantial drawing together of the real income levels of collective farmers and factory, office and professional workers in the USSR.

#### REVISION EXERCISES

1. What is the essence of the economic law of distribution according to work done?
2. Why is the material interest of the worker in the results of his labour necessary in socialist society?
3. What does Marxism-Leninism understand by the term "equality"?
4. What is the essence of wages under socialism?
5. Describe piece and time wages, cash and real payments.
6. How are collective farmers paid for their labour?
7. What are the social consumption funds?

## Chapter XV

### **COST ACCOUNTING AND PROFITABILITY. COSTS OF PRODUCTION AND PRICE SYSTEMS**

The use of economic laws in the socialist economy takes a variety of forms, a major one being cost accounting, a method for the planned management of socialist enterprises (associations). Directly connected with cost accounting are the categories of cost price, profits, profitability, prices and others whose application makes it possible to build the relations of a society with cost accounting units in such a way as to raise the efficiency of production, reveal the results of the economic operations of enterprises (associations), distribute their incomes and provide material incentives to production workers.

#### **1. THE ESSENCE OF COST ACCOUNTING AND THE PRINCIPLES BEHIND ITS ORGANISATION**

The basic cost accounting unit  
in social production

The socialist national economy is a complex production organism consisting of a multitude of interlinked production units. The primary and, at the same time, the basic production unit in the national economy is the enterprise (association).

Socialist enterprises are divided up socio-economically into public and co-operative ones, and in terms of economic



sector into industrial, construction, agricultural, transport and communications, material and technical supply and marketing, trading, public catering, domestic services and other enterprises.

Productive forces and relations of production are reproduced in the enterprise, which therefore acts as an organisational, technical and socio-economic unity. Being the primary structural unit of the national economy, it is the enterprise that combines labour power with the means of production and where all changes related to technical progress are initiated. The enterprise fulfils certain functions in the system of the social division of labour.

At the same time, the enterprise is a social unit of society: on the one hand, it is part of people's property and its interests and those of the whole people coincide; on the other hand, it has its own specific interests, since the state, being the owner of the means of production, puts them at the disposal of the enterprise, which is obliged to produce the output required by society.

Using the state property allocated to it, the socialist public enterprise or association carries out economic production operations (manufactures output, undertakes jobs and renders services) in accordance with the national economic plan, has its own balance-sheet and is a legal entity.

Socialist enterprises enjoy a certain degree of economic autonomy. They exercise the right to use, possess and dispose of property allocated to them by the state. The incomes and outlays of each enterprise are to some extent separate from those of other enterprises and the state. Part of the enterprise incomes remains at its own disposal for developing production, providing material incentives and improving the cultural and living conditions of the workers. The enterprise is not responsible for the obligations of the organisation to which it is subordinated, nor for those of other enterprises and organisations. In turn, the organisation to which the enterprise is subordinated, such as the ministry, is not responsible for the enterprise's obligations.

Scientific and technical progress is accompanied by an increase in the scale of enterprises. In recent years, many enterprises have merged into trusts, combines, firms, production and scientific-production associations. In accordance with the "Statute of the Socialist Public Production Enterprise", any combine, trust, firm, association or other economic organisation, that includes production units which

are not independent enterprises, operates as a production enterprise.

While being the primary unit in the national economy, the socialist production enterprise is, at the same time, the basic production collective of society.

Under capitalism, the interests of the working people are in antagonistic contradiction with those of the owners of the means of production, who strive to step up the exploitation of the workers, so capitalist enterprises are not single production collectives with common collective interests. Only in socialist society, where the workers are also the owners of the means of production and production is carried out for the purpose of satisfying the growing requirements of all members of society, do enterprises act as single production collectives, whose members have common collective interests.

Under these circumstances, the relations between the workers are relations of comradely co-operation and socialist mutual assistance. Work in the collective, the common interest and goals inspire in the workers a desire to demonstrate their creativity and initiative in labour, to jointly seek out production reserves and do everything possible to attain the best results in the collective's production activities. The relations of collectivism do not, however, take shape on their own. A true collective is one in which public opinion becomes the motive force and the working people participate actively in fulfilling the tasks facing the collective and assist one another.

In socialist enterprises, the conditions are created for the broad involvement of factory and office workers in deciding various production issues. Social organisations and the entire collective of workers in the enterprise participate broadly in discussing and implementing measures to ensure fulfilment of the state plan, development and improvement of the enterprise's economic production activities, improvement of its workers' working and living conditions. The regular meetings of the enterprise's workers discuss the draft production plans, the results of their implementation, the drafts of collective agreements and the course of the fulfilment of corresponding obligations, issues concerning production, the day-to-day and cultural services provided to the workers, and so on.

Consolidation of each collective member's feeling of responsibility for the activities of the collective is one of the

major tasks of educational work in enterprises. "It is a question," Lenin stressed, "of every politically conscious worker feeling that he is not only the master in his own factory, but that he is also a representative of the country, of his feeling of responsibility."<sup>1</sup> Under socialism, in addition to the personal material interests of its workers, each production collective has its own common collective material interest. This engenders certain specifics in the relations between enterprises and with society as a whole. These specifics are manifested in cost accounting.

The scientific and technological revolution, the growing scale of production and the further improvement of management have engendered a need for an organisational restructuring of the primary unit, i.e., a strengthening of enterprises through the creation, on its basis, of production associations (combines). This is a progressive form of production organisation that makes it possible to speed up concentration, specialisation, and scientific and technical progress. Associations are able to make more rational use of skilled personnel and material resources, have major opportunities for studying current and future demand for their output, etc.

Associations include enterprises that either produce output of the same type or are interconnected technologically. They are set up on a country-wide scale or within the bounds of a single economic region. Apart from production enterprises, scientific production associations may also include research institutes and design organisations. This helps to accelerate the introduction of scientific achievements into production.

Under the triple-step management system, in addition to production associations (combines), all-Union (republican) industrial associations are also set up. These are unified economic production complexes including production associations (combines), industrial enterprises, research and design organisations. They have at their disposal all the material, financial and labour resources of the entire production complex and ensure that it operate without losses.

Cost accounting principles are beginning to be applied in organising the activities of ministries, too. These now

<sup>1</sup> V. I. Lenin, "Speech at the Second All-Russia Congress of Commissars for Labour", *Collected Works*, Vol. 27, p. 403.

have to answer for the results of their economic operations and have a material interest in improving them. Thus, unified two- and triple-step managerial cost accounting systems are being set up for industry: ministry—production association (enterprise), and ministry—industrial association—production association (enterprise).

### The essence and principles of cost accounting

The primary structural links (production enterprises, trusts, combines, associations) are interconnected units of the unified socialist economy, organised in a planned, balanced way.

*Cost accounting* is an objective economic category of socialism, constituting a system of economic relations between society as a whole and its economic units, between the economic units themselves and also between these and their internal departments. It is in cost accounting that the unity of the interests of enterprise collectives and of society is realised and the planned, balanced organisation of the national economy ensured. Cost accounting literally means carefully calculated management of the economy. But calculations vary. In the capitalist economy, they serve the purpose of personal enrichment of capitalists through exploitation of the labour of others.

Under socialism, there is economical management that has nothing in common with capitalist economising. It is determined not by the private, selfish interests of individuals, but the interests of all society. Under socialism, cost accounting becomes both possible and necessary in every enterprise seeking to attain the best possible results with the lowest possible inputs into running the entire socialist economy.

*Cost accounting* is also a method for the planned management of socialist enterprises, a method based on comparison, in monetary form, of the costs of producing output and the results of economic activities, on covering the enterprise's outlays from its own revenues and on attaining production profitability. The current task is to do everything possible to consolidate cost accounting, to achieve the strictest economies and prudence, to cut losses, reduce cost prices and increase the profitability of production.



Money allows the same unit of measurement to be used in accounting, production, planning and control of the expenditures of live and embodied labour, costs, prices, and incomes of each enterprise. Cost accounting makes the financial and economic position of enterprises directly dependent on the results of their operations.

When carrying out planned management, the socialist state makes use of cost accounting as a means for exerting an economic impact on the operations of enterprises, as a means for taking the strictest account and verifying the results of the economic activities of each enterprise, and as an instrument for securing fulfilment of the state plan.

Cost accounting stimulates an increase in the output necessary for society and an improvement in its quality. Output for which there is no consumer demand will not be sold, and the enterprise will not be recompensed for the means it has expended. Thus, cost accounting serves the fuller satisfaction of social requirements, which follows from the basic economic law of socialism.

Cost accounting is directly connected with commodity-money relations and the operation of the law of value under the conditions of the socialist planned economy. In this, the law of value is used both for accounting and comparison of costs and results, and for economic stimulation of production. The marketing of output shows how far the individual outlays of the given enterprise correspond to the socially necessary ones, and the material remuneration to collectives is dependent on this.

Cost accounting relies on the entire system of the economic laws of socialism and serves their operation, as well as stimulating greater efficiency of social production and better quality work. Speaking of the significance of cost accounting, Lenin stressed that millions of people might be brought to communism "not directly relying on enthusiasm, but aided by the enthusiasm engendered by the great revolution, and on the basis of personal interest, personal incentive and business principles".<sup>1</sup> Cost accounting is carried out in both public, collective farm and co-operative enterprises.

The organisation of the work of industrial enterprises on a cost accounting basis presupposes observance of the nec-

<sup>1</sup> V. I. Lenin, "Fourth Anniversary of the October Revolution", *Collected Works*, Vol. 33, p. 58.

essary principles ensuring more economical running of the economy. One such principle is to *combine correctly centralised, planned guidance by the socialist state with the economic and day-to-day independence and initiative of enterprises and associations.*

Such a combination makes it possible, on the one hand, to utilise the advantages of centralised planning, on the other, it furthers the development of the working people's creativity. This principle is fixed in the Constitution of the USSR.

The state allocates to each cost accounting public enterprise and organisation the material and monetary funds it requires to fulfil its plan.

Cost accounting public enterprises act in their interrelations as independent legal and economic units. They also enjoy the right to take on their own staff, to train and raise the skills of their workers, and apply the wage system they prefer.

Cost accounting enterprises have their own independent balance-sheets, which reflect the basic indicators of their economic operations. Enterprises have their own accounts in the State Bank, in which they keep their funds and through which they complete settlements with other enterprises and organisations.

All together this allows the directors of public enterprises and economic organisations to decide, flexibly and efficiently, the issues that arise in the management of production, to demonstrate economic initiative and manoeuvrability in disposing of production and money resources, and to achieve plan fulfilment for the lowest possible inputs.

The economic and day-to-day independence of state enterprises is accomplished within the bounds of state plan targets. By allowing enterprises this independence, the state makes them materially responsible for the safety, correct and most rational use of resources, for fulfilment of the plan and obligations to the state budget, suppliers and consumers.

Fulfilment of the basic targets laid down in the plan is the law for each enterprise. The directors of enterprises are responsible to higher organisations for all economic production operations.

The economic relations between enterprises are regulated with the help of economic contracts. Contractual relations are one feature of cost accounting. In accordance with the

state plan, cost accounting enterprises buy the means of production they require and sell their output to those customers with whom they have signed contracts.

The contract determines the delivery conditions, volume, range and quality of output, delivery dates, the price, payment date and procedure, the form and extent of responsibility for violation of the conditions of the contract.

Strict observance by enterprises of contractual discipline is one of the chief requirements of cost accounting.

Cost accounting presupposes *constant monetary control* over the production activities of enterprises. This means that the enterprise's receipt of monetary funds is made dependent on the results of its work. Non-fulfilment of the plan for production and accumulation, and expenditure over and above planned outlays create financial difficulties for enterprises in settling accounts with suppliers and in fulfilling obligations to finance and credit organisations. This entails the application of economic sanctions. Monetary control is accomplished by credit and finance organs during the financing and crediting of the enterprise, and also through the system of settlements for delivered output. Monetary control makes enterprises implement stricter economies, spend their resources more carefully and speed up the turnover of these resources.

Cost accounting presupposes the *material interest* of the enterprise's management and entire collective of workers in its economical and rational running and in plan fulfilment.

The material interest of the workers is ensured by the system of wages and bonuses in accordance with the economic law of distribution according to work done. The collective and personal material interest of the workers of enterprises is stimulated by special funds.

In socialist enterprises, deductions are made from enterprise profits to set up three funds:

1. The material incentive fund for workers. This is used to provide incentives to workers for individual achievements and high overall results of the work of the enterprise. Out of this fund factory and office workers are paid bonuses for high work indicators throughout the year and also given a one-time remuneration at the end of the year. In this account is taken of the length of the workers's continual service record in the enterprise.

2. The fund for socio-cultural measures and housing construction. This money goes on housing construction (in

addition to centralised resources allocated for this purpose), on the construction and maintenance of child-care institutions, young pioneer camps, holiday homes and sanatoria, and for other socio-cultural needs.

3. The fund for production development, which, in addition to deductions from profits, contains part of depreciation deductions. This money the enterprise uses independently for the technological improvement of production and for complete renewal of fixed assets.

Consequently, under cost accounting, the enterprise as a whole and each of its individual workers have a material interest in fulfilment and overfulfilment of the plan, in the most economical and profitable running of the enterprise.

## Cost accounting and economies

The planned management of the socialist economy creates all the necessary opportunities for rational use to be made of material and manpower resources throughout society. Each working person, working not for capitalists or landowners, but for himself and for his own society, is deeply interested in a rational and careful use of the social wealth and in economical management of the economy.

*Economies* are a principle of running the socialist economy, consisting in producing the best possible output for the lowest possible inputs of means of production and labour. The implementation of this regime is one of the chief conditions for a growth of the socialist economy. A thrifty, economical use of manpower, material and financial resources has always been of enormous significance for the development of the socialist economy.

Implementation by the Soviet people of the programme outlined by the 26th CPSU Congress for the development of the productive forces on the basis of technical progress requires tremendous inputs of manpower, material and financial resources. Hence the growing significance of economies in the period of developed socialism. "An economy must be economical," Leonid Brezhnev said at the Congress.

Economies facilitate the fulfilment and overfulfilment of plans, a reduction of labour inputs and of the cost price of output. Better use of existing productive capacity, economical use of raw and other materials, fuel and electricity make it possible to increase output without additional capital



inputs. The more rationally the national economy is run, and the more economically manpower, material and financial resources are used in production, the faster the national wealth expands.

Economies even of "trifles" can bring major results on the country-wide scale. Not even the most insignificant opportunity to reduce inputs, save on labour, materials and money can be ignored. A small saving in each production section, enterprise, and on each collective farm turns into huge figures for the national economy as a whole. This is why the strictest economies are acquiring such special significance nowadays.

To tighten up regime of economies means to find more and more new opportunities for increasing output and reducing its cost price, for being more careful and rational in the expenditure of raw and other materials, fuel, and electricity, for reducing the proportion of substandard production, all sorts of loss and non-productive outlays.

### The forms of cost accounting

We have discussed cost accounting in production enterprises as the primary unit in the national economy, but cost accounting within enterprises and in the economic units above the enterprise level is of major importance in the management of the national economy.

Cost accounting in production subdivision of enterprises differs significantly from that for whole enterprises. The subdivisions of enterprises (workshops, production sections, work teams, etc.) do not produce commodities, and there are no acts of sale or purchase within enterprises. Since they do not market output, production subdivisions do not have their own revenues, do not conclude economic contracts with other enterprises, do not have an independent balance-sheet nor an account in the bank, do not have direct relations with credit and finance institutions, are not legal persons, and so on. Intra-enterprise cost accounting helps to reveal the contribution made by each workshop, production section, etc., to the overall results achieved by the enterprise. It is the more effective, the more closely the indicators of the plan and material stimulation of individual subdivisions of the enterprise are co-ordinated with those for the whole enterprise.

The functioning of a workshop operating on a cost accounting basis is assessed not only in terms of quantity indicators for the fulfilment of production tasks, but also in terms of quality. Actual cost price is compared with planned one, and savings or overexpenditure are shown up. Depending on the economic results, additional material remuneration is paid to the collective of the workshop, production section or work team.

The principles of cost accounting are also applied in industrial associations (combines). The industrial association ensures full coverage of production costs, including expenditure on R & D, on the running-in of new items and techniques, and on maintaining the management apparatus, and also ensures the receipt of the profits necessary for making payments into the budget. Cost accounting associations have material, financial and labour resources at their disposal and act as economic management organs.

The introduction of cost accounting at all economic levels helps to speed up technical progress, intensify production and make it more efficient.

## 2. THE FUNDS AND MEANS OF THE COST ACCOUNTING ENTERPRISE

In addition to labour power, the production process also requires, of course, means of production. These consist of means of labour (machinery, equipment, production premises, installations, and so on) and objects of labour (raw and other materials, fuel, semi-finished products, and others).

Means of production make up the productive assets. The productive assets of a socialist enterprise are divided into fixed and circulating, according to the nature of their turnover.

### Fixed assets

*Fixed assets* include means of production that service the production process over a protracted period of time. As they wear out, their value is transferred bit by bit to the output produced.

Under the Soviet classification, fixed productive assets

include production premises and installations, power plant and machinery, apparatus, handling and haulage means, instruments and tools (that serve for more than a year and cost over 50 roubles), pipelines, road and railway installations and road surfaces, dams, water mains, irrigation and drainage installations, draft and commercial livestock, and so on.

One of the chief demands made on cost accounting enterprises is economical use of fixed assets. An improvement in the use of fixed assets makes it possible to increase output and reduce its cost price without additional investment.

One indicator of the use of fixed assets is the return on assets, or assets to output ratio (which expresses the output per rouble of productive assets and may be given by the following formula):

$$RA = \frac{O}{A}$$

where RA is return on assets,

O is output,

A is productive assets.

An improvement in the use of productive assets is one of the chief economic tasks. In order to raise the return on assets, uncommissioned equipment must be put into full production, redundant equipment must be sold or handed over to other enterprises that do need it. Idle time for equipment must be shortened by speeding up and improving the quality of equipment repairs, eliminating organisational and technical hold-ups and interruptions in the supply of materials and equipment to enterprises. Major reserves are contained in extending the shift ratio of equipment operation. Considerable results may also be achieved by raising the speed of machinery operation and of production processes in general, etc.

Greater independence and financial resources for enterprises open up favourable prospects for increasing the return on assets. Using their own funds and credit, enterprises are able to replace obsolete with new technology in good time, and take measures to modernise equipment when this is economically justified. At the same time, payment for fixed productive assets and material circulating means raises the enterprises' interest in improving their utilisation.

During their productive consumption, fixed assets gradually wear out. There are two types of wear—physical wear and tear and obsolescence.

*Physical wear and tear* is a result of physical or chemical action on the fixed assets during the production process or of the impact of natural factors.

*Obsolescence* is a result of technical progress and means that, as technology develops, it becomes unprofitable to continue using old rather than new, more productive and cheaper machinery. Machinery and other elements of fixed assets gradually become obsolete until they are physically unusable. So, in order to reduce losses connected with the obsolescence of fixed assets, the planned, balanced modernisation of equipment is necessary; equipment must be used at full capacity, idle time eliminated, and so on.

Replacement of worn-out fixed assets is paid for out of depreciation deductions, which are formed by the part of the value of fixed assets corresponding to their wear being included in the value of the finished product. One part of the depreciation fund of public industrial enterprises is used by the state to replace fixed assets going out of production, and another part is put at the disposal of enterprises and is used by them to replace the fixed assets completely.

The volume of fixed assets in public enterprises is enlarged mainly out of the accumulated part of the national income. From 1913 to 1980, the fixed productive assets in the USSR increased 42-fold to reach 1,149 billion roubles.

In addition to the fixed productive assets, there are also *fixed non-productive assets*, which consist of the property of the socialist state or collective farms, used for non-productive consumption over a period of several years. They include housing, the premises, installations and equipment of establishments and organisations in the education, health and municipal services, administrative, cultural and other amenities.

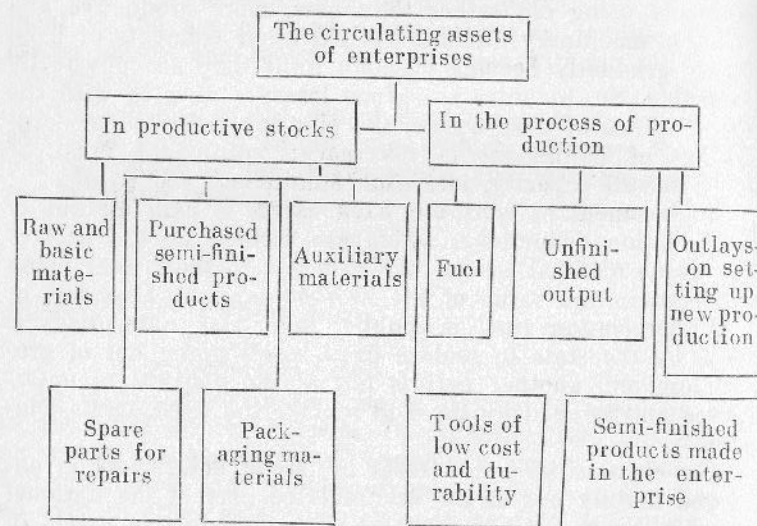
### Circulating assets

*Circulating assets* are the part of the means of production that is used up completely in the production process during one production period and the value of which is transferred totally to the finished product.



Circulating assets include, in physical terms: (1) productive stocks in warehouses—raw, basic and auxiliary materials, fuel, purchased semi-finished products, spare parts for current repairs, tools of low cost and durability, various other tools, and so on; (2) incomplete output, semi-finished products and a long-term renewal fund.

The composition of the circulating assets of public enterprises may be illustrated as follows:



## Circulating means

Apart from fixed and circulating assets, socialist enterprises also require additional means for the sphere of circulation. Output produced in socialist enterprises is realised according to a plan, and the enterprises receive money for it. It follows from this that, at any given moment, the cost accounting enterprise has at its disposal (in addition to fixed and circulating productive assets) a certain quantity of finished output waiting to be sold and a sum of money already received from the sale of output. Stocks of finished output ready for sale, and also the money the enterprise needs for purchasing raw materials, fuel, and so on form the *cash and disposable stocks* of the enterprise.

Circulating assets and cash and disposable stocks, in

money terms, make up the *circulating means* of the enterprise. These two component parts of the circulating means serve the reproduction process in different ways: the circulating assets operate in the production sphere, while the cash and disposable stocks in that of circulation. Both of them function within the framework of the circuit of the enterprise's means.

The circulation means of socialist enterprises are divided into their own and loaned means.

The public enterprise's own circulating means are allocated to it by the state in accordance with its minimum requirements for fulfilling the production plan. The enterprise's demand for other means that arises at particular times of year in connection with seasonal stocks of raw materials and fuel, and also with goods being en route, etc., is met by credit from the State Bank. Credit granted by the State Bank has to be paid back in a set period of time not exceeding a year, and interest has to be paid on it.

The enterprise is only allocated the minimum means it needs, as this encourages an economical expenditure of these means and speeds up their turnover.

## Rate of turnover of circulating means

The rate of turnover of circulating means is one of the generalising indicators of the economic activities of enterprises and organisations. The circulating means of enterprises and economic organisations are in constant movement and pass through three successive stages. This constant movement is the circuit of circulating means.

In the *first stage* of the circuit, the circulating means of public enterprises are transformed from money into productive stocks, i.e., into means of production intended for production purposes.

In the *second stage* of the circuit, the productive stocks are used up and transformed into finished goods. The circulating means are now in the sphere of productive consumption. At the *third stage*, the goods produced by the enterprise are marketed and the circulating means acquire a monetary form. The money is again spent on purchasing productive stocks and so on, i.e., the whole circuit repeats itself over and over.

The time taken for the circulating means to pass through all the successive stages of its circuit constitutes the full period of their turnover.

An acceleration of the turnover of circulating means allows the cost accounting enterprise to reduce stocks of raw and other materials and material values used in production. Thus, it becomes possible to release part of the circulating means for expanding production in the given enterprise or for using them in other industries.

The *velocity of turnover* of the means of enterprises depends on the time taken by production and circulation (in the form of stocks of finished output ready for sale, etc.), so the chief factors speeding up the rate of turnover of circulating means are a cut in production and circulation time, as well as elimination of excessive stocks. The significance of speeding up the turnover rate of circulating means on the countrywide scale is tremendous.

### 3. COSTS OF PRODUCTION AND THE PRICE SYSTEM

#### Cost price and its structure in the socialist economy

The value of output in socialist society has three components: (1) the value of the means of production used up; (2) the value of the output created by necessary labour and (3) the value of the output created by surplus labour.

The value of output in socialist society constitutes the social costs of production.

The first two parts of the social costs of production form the cost price of the output of socialist enterprises. The third part of value forms the net income of society.

Although the cost price of output is not planned centrally for the socialist enterprise, it is of major significance for the whole economy, and is taken into account in the self-sufficient running of enterprises.

In industry, there is the factory cost price, including the enterprise's outlays on production, and the full cost price, which includes, in addition to factory cost price, all the given enterprise's outlays on marketing the output and for other purposes (transportation, packaging, the admini-

nistrative expenditures of trusts and combines, outlays on staff training, dissemination of know-how and payment for R & D).

The cost price of industrial output has the following structure.

All the enterprise's outlays on production are grouped in economic terms into the following homogeneous groups according to the composition of the basic elements of production:

1. Wages and supplements.
2. Inputs of raw and other materials, fuel and energy.
3. Depreciation covering the value of the worn out part of fixed assets.
4. Factory and workshop outlays connected with management and servicing of production.

The share of the individual elements in the cost price differs, depending on the specific conditions and peculiarities of the industry, as well as on the machinery available, the organisation of production and labour.

The chief ways to reduce costs, which ensure economies of social labour in all sectors of the national economy, are: higher labour productivity; reduced inputs of raw and other materials, fuel and energy per unit output; lower administrative and managerial costs.

The national economic significance of reducing cost prices consists primarily in that not only the incomes of individual enterprises depend on it, but also the growth of accumulations, which are used for extending socialist reproduction and for raising the material and cultural welfare of the people. For this reason, the drive to reduce cost prices is particularly important.

Output produced by socialist enterprises enters economic turnover at set prices. The difference between the price of this output and the costs of its production and marketing by socialist enterprises (i.e., cost price), constitutes the net income of society.

#### Net income and its two forms

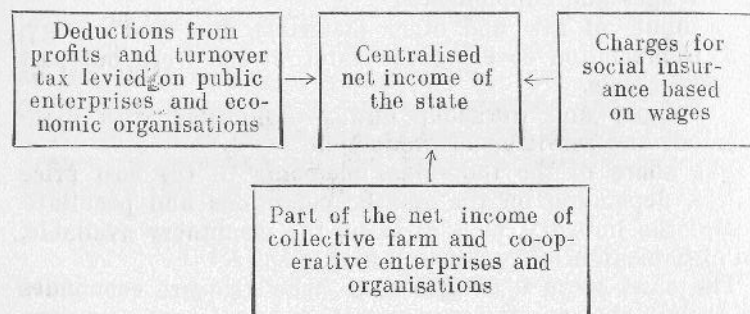
*Net income* is the value of the surplus product created by surplus labour throughout socialist society, and expressed in monetary form.

The net income of society, like the whole national in-



come, is created in the branches of material production. The net income created in public enterprises remains partly at the disposal of the given enterprises (in the form of profits) and goes partly to the state. Net income is also created on collective farms. Some of it remains at the disposal of the collective farms and the rest is transferred to the state through the mechanism of prices and income tax.

#### The Formation of the Centralised Net Income of the State



The net income takes two main forms: the centralised net income of the state and the net income of the public enterprise (or collective farm).

The *centralised net income of the state* is the part of the value of the surplus product of socialist society that is concentrated in the hands of the state to be used for the needs of the whole people.

This income enters the state budget in the form of turnover tax, deductions from profits, charges for social insurance based on wages, and income tax on co-operative enterprises.

The centralised net income of the state is used for satisfying the needs of the whole people, financing capital construction, covering outlays on the country's defence, education, the health service, pensions, administration, and so on.

The *net income of the public enterprise* (profits) is the part of the value of the surplus product that remains at the disposal of the enterprise. The magnitude of the net income of the enterprise depends on the degree of plan fulfilment or overfulfilment and reductions in cost prices. The more efficiently the enterprise operates and the lower

the cost price of output, the higher its net income. This ensures the material interest of all the enterprise's workers in increasing the profitability of production.

#### Profit and its distribution between the state and the enterprise

In socialist society, profit is the part of society's net income that remains and is realised in the given enterprise. Profit is one of the generalising indicators, reflecting the efficiency of the enterprise's economic operations.

Socialist profit differs in its social nature from capitalist profit. Profit under capitalism expresses the antagonistic contradictions between labour and capital. Under socialist conditions, it is the result of the collective, joint labour of people free from exploitation. In capitalist society, profit is the only goal and motive force of the capitalist. Under socialism, profit is a means for developing production to ensure a constant rise in the people's welfare. Optimal distribution of profit between the state and enterprise is of major importance.

Payments for productive assets are made into the budget by the enterprise out of its profits, these constituting the centralised net income of the state. In Soviet industry, these payments are usually six per cent of the value of the fixed assets and circulating means. Payments for assets express the economic relations between society as a whole and individual enterprises in using the national resources allocated to them. Their chief function is to encourage better use of productive assets.

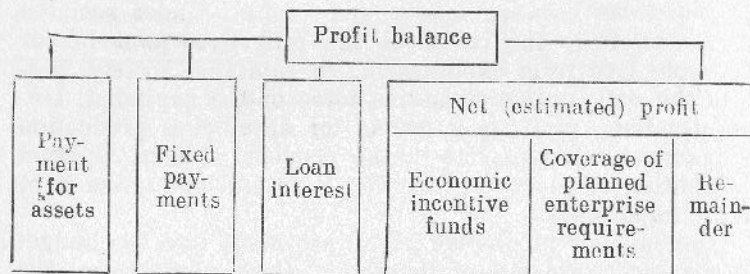
If profitability is very high, fixed (rent) payments may be established into the budget out of profits.

The existence of fixed (rent) payments is due to some enterprises, especially extractive ones, making excessive profits when a high level of labour productivity is ensured by natural conditions, rather than the results of their economic activities. For instance, outlays on mining coal by the open cast method are lower than in mines, so the part of the profit expressing the difference between the socially necessary and individual expenditures on production under more favourable natural conditions is removed into the state budget in the form of fixed (rent) payments.

The enterprise also pays interest to the bank for credit received.

After all these payments and contributions have been paid, what remains is net estimated profit, from which three economic incentive funds are formed: the material incentive fund, the fund for socio-cultural measures and housing construction, and that for the development of production. Then part of the profit is allocated to cover the planned requirements of the enterprise: financing centralised capital investments, supplementing the enterprise's own circulating means and other planned outlays. And finally, the remainder of the profit is paid into the state budget.

The procedure for distributing profit can be illustrated as follows:



The net (income) profit of socialist enterprises is constantly rising: the profits of enterprises and economic organisations in the USSR in 1940 were 3.27 billion roubles, in 1965—36.9 billion and in 1980—116 billion roubles.

## Enterprise profitability

Cost accounting puts socialist enterprises in such a position that they must achieve the greatest possible economies of their own resources and run at a profit.

*Profitability* of an enterprise means that the means it receives from marketing its output not only cover costs, but also provide a certain profit.

If the inputs an enterprise makes in producing output are higher than socially necessary, this enterprise will not be able to cover its costs and will make a loss. And vice versa. The enterprise whose outlays equal the socially ne-

cessary expenditure or are below it is profitable. In planning and running the economy, the socialist state proceeds from the need to ensure profitability of all enterprises and industries.

Profitability characterises the relative level of profit and it may be calculated in two ways. First, as the ratio of profit to the outlays of the enterprise (the cost price of output):

$$P^I = \frac{P}{C}$$

where  $P^I$  is the profitability rate,

$P$  is the mass of profit,

$C$  is the cost price of output.

This method for determining profitability is not often used nowadays, since it does not fully reflect the efficiency of the enterprise's economic operations—the use of the fixed productive assets has virtually no effect on it. This method is used for determining the profitability of producing individual types of output and in planning their prices.

Second, profitability is determined as the ratio of profit to the sum of the fixed productive assets and standardised circulating means of the enterprise. It is calculated according to the formula:

$$P^I = \frac{P}{A}$$

where  $P^I$  is the profitability rate,

$P$  is the mass of profit,

$A$  is the value of productive assets and standardised circulating means.

This indicator of profitability characterises primarily the degree of effective use of the enterprise's productive assets.

Let us assume that two enterprises have the same amount of productive assets, valued at 30 million roubles, but that one of them makes an annual profit of 10 million roubles and the other of 12 million roubles. The first enterprise's profitability level is:

$$\frac{10}{30} \times 100 = 33.3\%$$

while the second's is:

$$\frac{12}{30} \times 100 = 40\%$$



Consequently, the second enterprise makes more efficient use of its fixed assets.

This procedure for calculating profitability interests enterprise collective in making better use of fixed productive assets and reducing inputs of live and embodied labour.

The level of profitability of enterprises depends on many factors: first, on all of those that affect the cost price of output; second, on the share of machinery, machine-tools and other equipment in the sum total of fixed productive assets; third, on the prices of the final product, on the quality of the goods, on the conditions of supply and marketing, and so on.

Under socialism, a rise in the profitability of some enterprises does not conflict with the interests of others; on the contrary, it creates the necessary conditions for speeding up the development of the whole national economy for many years to come. The profitability of socialist enterprises is not subject to spontaneous, random changes in prices because planned economic management ensures that output is sold at fixed, planned prices.

### The price system

The output of socialist industry is sold at planned prices set in advance. The chief principle behind price formation under socialism is the planned establishment of prices, with due account of the social costs of production, i.e., prices based on the value of the commodity. In socialist society the price diverges from value, but such divergences do not take place spontaneously; they are determined by the state for the sake of developing the national economy. "Prices must," states the CPSU Programme, "to a growing extent, reflect the socially-necessary outlays of labour, ensure return of production and circulation expenditures and a certain profit for each normally operating enterprise."<sup>1</sup>

In the socialist economy there are enterprise and industry wholesale prices, uniform purchase prices for agricultural produce, retail prices in state and co-operative retail trade, and retail prices on the informal market.

In the USSR, the wholesale price includes the cost price of output, the profits of the industrial enterprise, the costs and profits of the marketing organisation. If turn-

<sup>1</sup> *The Road to Communism*, p. 537.

over tax is levied on the given good, the wholesale price also includes this.

The interconnection between the various types of price for industrial output may be illustrated by the following schema:

Cost price of goods	Profit	Turnover tax	Marketing mark-up	Trade mark-up
Enterprise wholesale price				
Industry wholesale price				
Retail price				

The turnover tax goes into the budget mainly from industries producing consumer goods, as well as a number of heavy industries (the oil, gas, iron and steel, electrical engineering and others). Many types of heavy industry output are sold at prices below value, which means that part of the net income created by heavy industries is realised, through the turnover tax, in the prices of commodities produced by light industry.

When setting price, the state proceeds from the need to cover the planned production outlays of enterprises and to ensure their profitability.

The state uses the price system to consolidate cost accounting, stimulate a cut in production costs and rise in the output of the goods required.

### 4. Cost Accounting on Collective Farms

The cost accounting principles considered above are also applied, in the main, on collective farms. "Farming on all collective farms," states the CPSU Programme, "must be based on the principle of profitability."<sup>1</sup> Yet on collective farms, cost accounting does take somewhat different forms than it does in public enterprises, owing to the specifics of

<sup>1</sup> *Ibid.*, p. 529.

the collective farm and co-operative form of property and natural production factors.

Cost accounting requires, above all, that the entire gross output of the collective farm, in money terms, be taken into account. The gross output of the collective farm is all the output produced during the year in its collective economy. A substantial part of this output is sold and constitutes a marketable output of the collective farm. The bulk of the marketable output is sold to the state at basic purchase prices in accordance with a plan drawn up for several years. The prices of many products include a 50 per cent mark-up on the basic purchase price for output sold over and above the plan, the purpose being to encourage overfulfilment of state plans.

In the USSR, purchase prices, fixed by the state for each variety of output differ by zone depending on the production conditions. For example, the purchase price for grain is higher in the Urals than in the Ukraine, because in the Ukraine fewer inputs of labour are required per centner of grain.

In order to reveal the profitability of collective farm production, the cost price of the output must be established. The cost price of collective farm produce is a monetary expression of the part of the value that covers inputs of means of production (past labour) and payment to collective farmers for their labour (part of live labour). It shows the collective farm how much the production and marketing of a given type of output will cost.

The cost price of collective farm output includes the following outlays: the value of the fixed assets used up in the production process (depreciation payments), the value of the products and materials used up (those made by the farm itself and purchased elsewhere), outlays on payment for labour, other monetary outlays (money paid for business trips, etc.).

The cost price of collective farm output is calculated as follows: seed, fodder and other materials produced by the farm itself are valued at the cost price of their production, purchased materials at their actual price. The wear and tear on productive assets (tractors, motor vehicles, agricultural machinery, etc.) is calculated at the rates used on state farms. The payment collective farmers receive in kind is also calculated in money terms. Money wages facilitate the application of cost accounting.

A collective farm is a large-scale economic unit and the modern collective farm economy requires strict monetary accounting of all production outlays. Collective farms face the task of achieving a further drop in the cost price of collective farm output, for which purpose they need, first of all, to raise labour productivity. The main condition for a rapid increase in this indicator is an intensification of agriculture through the introduction of chemicals, development of irrigated farming, introduction of comprehensive mechanisation and electrification. Intensive development of agriculture will make possible a sharp rise in crop yield and the productivity of livestock breeding.

An increase in production and reduction in the cost price of collective farm output are necessary conditions for lowering state purchase and retail prices for agricultural produce.

State purchase prices are set in such a way that, when the collective farms sell their output to the state, their outlays are covered and they receive a net income (profit), this being the difference between the sum they receive and the full cost price.

The *net income of a collective farm* is the part of the value of the gross output that remains after deduction of all expenditures on producing it, i.e., the cost price of output. Comparison of outlays and incomes makes it possible to determine the economic profitability of producing given agricultural products and the results of the economic operations of the collective farm as a whole.

Part of the net income of the collective farm is *differential rent*.

Collective farms located on the best and average fertility land or close to sales markets for their output and therefore paying lower transport costs, receive additional net income compared with farms working under relatively poorer production conditions. This part of the net income forms differential rent I.

But differential rent II is also formed on collective farms. This is the part of the net income that advanced farms receive as a result of making better use of the land, introducing new technology, machinery and applying fertilisers, improving farming techniques, and so on, thus raising labour productivity and reducing unit output costs.

Part of the differential rent remains at the farms' disposal, the rest goes into the state budget through the price system and income tax.



Collective farms have considerable reserves for reducing unit production outlays. A cut in the inputs per unit output on the basis of a rise in labour productivity brings a lower cost price and higher net income for the collective farm and a further rise in the welfare of the collective farmers.

### REVISION EXERCISES

1. Describe the primary cost accounting unit in social production under socialism.
2. What is the essence of cost accounting?
3. What are the principles behind cost accounting?
4. How is the material interest of every worker and collective of an enterprise ensured?
5. What is the essence of economies and their influence on cost accounting?
6. What are the forms of cost accounting?
7. Describe fixed and circulating assets.
8. Describe circulating means and their circuit.
9. Describe the value and cost price of the output of socialist enterprises. The structure of cost price and ways to reduce it.
10. Describe net income and its forms.
11. What is profit and how is it distributed between the state and the enterprise?
12. What does profitability mean and how is it calculated?
13. What is the price system under socialism?
14. What are the specifics of cost accounting on collective farms?

## Chapter XVI

# SOCIALIST REPRODUCTION. NATIONAL INCOME AND THE FINANCE AND CREDIT SYSTEM

## 1. SOCIALIST REPRODUCTION

### The essence of socialist reproduction

Social reproduction means the continuous and constantly repeating process of the production, distribution, exchange and consumption of material wealth. The determining role in this process is played by production, because only that which has been produced can be distributed and consumed.

Reproduction can be simple or extended. Under socialism, there is a constant and continuous expansion of the scale of production from one year to the next, i.e., there is *extended reproduction*. The process of reproduction means the constant reproduction not only of material wealth and labour power, but also of relations of production.

The reproduction of socialist relations of production means a growth and consolidation of social socialist property in its two forms—public, and collective farm and co-operative, a drawing together and, in the future, gradual transformation of them into a single, communist property of the whole people, expansion and improvement of comradesly co-operation and mutual assistance between workers, development of a communist attitude to labour and, gradually, of communist forms of the distribution of vital boons.

The chief specific of socialist reproduction in contrast to capitalist is that it is subordinated to a noble goal—that of satisfying the people's requirements. Under capitalism there is a different goal—enrichment of a small number of private property owners. Socialist reproduction develops in the interests of all society and this excludes any possibility of rivalry between enterprises and industries, excludes the

possibility of crises of overproduction and the appearance of unemployment.

A characteristic feature of socialist reproduction is a continuous growth of production. Socialist reproduction is carried out in a planned, balanced way, which means that the development of any industry, and of social production in general, is accomplished according to a plan drawn up in advance.

Socialist reproduction is also characterised by high rates of production growth. In the course of socialist reproduction, the productive forces are constantly growing.

The reproduction process, from the point of view of its social content, is the process of the reproduction of the productive forces and relations of production, and from the point of view of its material results, is the process of creating the aggregate social product.

### The aggregate social product and its composition

A result of socialist social reproduction is the creation of the aggregate social product and, on this basis, multiplication of the social wealth. By *social wealth* we mean the entire mass of material values at the disposal of society, these being the result of the productive operations of both current and previous generations. It also includes natural resources, the intellectual and cultural values of society, scientific and educational potential, the overall level and structure of worker qualifications and the potential of the system of services.

The aggregate social product consists of the entire mass of material wealth created by society over a specific period of time, usually a year (the annual social product). The aggregate social product is created by the labour of workers in the material production sphere—industry, agriculture, transport, communications, and also workers in trade, since the production process is continued here (packaging, sorting, storage and transportation).

Apart from labour in material production, some labour under socialism is employed in the sphere of state management, cultural, municipal and medical services to the population. The labour of the workers in these spheres does not participate directly in creating the aggregate social

product, but it is socially useful, necessary for society, and furthers the creation of the aggregate social product.

In socialist society, the growth of the aggregate social product takes place in a planned, balanced way, continuously and rapidly. Thus, for example, from 1940 to 1980 the aggregate social product of the USSR increased by almost 14 times.

The factors behind the rise in the aggregate social product under socialism are as follows.

Since the aggregate social product is created by labour in the branches of material production, an increase in it depends on the numbers of workers in this sphere. But a rise in the number of workers is the extensive course of development of production both in the individual enterprise and the economy as a whole. It must not be regarded as the only source of growth of the aggregate social product. It must be remembered that reserves for increasing the numbers employed in material production are quite limited.

The chief factor behind the growth of the aggregate social product is the rise in the productivity of social labour owing to scientific and technical progress, higher qualifications of workers, collective farmers, engineers, technicians and office staff, a more rational utilisation of productive assets, and a scientific organisation of labour and production. This is the intensive way of increasing the aggregate social product and, under socialism, it knows no bounds.

The aggregate social product is reproduced both in the physical, material form and in terms of value.

In its *physical, material form*, the aggregate social product consists of:

1) means of production, i.e., articles intended for production purposes (machines, raw and other materials, fuel, and so on);

2) goods for personal consumption (clothing, footwear, food, housing, domestic items, etc.).

Articles intended for production purposes are used to replace means of production used up and to expand production further (accumulation), and also to form productive reserves and stocks.

Personal consumption goods are used to satisfy the requirements of those employed in production, those newly drawn into this sphere, and of all the non-able-bodied members of society, and to build up central reserves of consumer goods.



Thus, in accordance with the purpose of the articles making up the aggregate social product, social production breaks down into two main groups: the *production of means of production* (Department I) and the *production of consumer goods* (Department II).

In *value terms*, the entire aggregate social product breaks down into three parts: (1) the value of the means of production used up, which is transferred to the finished product; (2) newly created value intended for the personal consumption of the working people; (3) newly created value intended for expanding production and the social consumption fund.

Each of these parts fulfils a special role in the process of reproduction. The first part goes to replace (in value terms) the means of production used up, i.e., the wear and tear on premises, installations, machine-tools, mechanisms, raw materials, fuel, electricity and other elements of a productive purpose.

The second part of the value of the social product covers labour inputs, i.e., the goods consumed by the workers in material production.

The third part of the aggregate social product embodies the value of the surplus product and covers expenditures on maintaining the non-productive sphere. It forms the fund for expanding production (the accumulation fund).

### The conditions for the realisation of the aggregate social product

The annual aggregate social product produced is realised according to a plan by means of exchange between Departments I and II and within each of them.

Let us look, first, at how the output of enterprises in *Department I* is realised.

In order to renew the production process in Department I continuously, the means of production used up within it must be constantly replaced.

This is achieved through exchange between the various industries within this department. For instance, the iron ore mining and coal industries provide raw materials and fuel for the iron and steel industry, which supplies the engineering industry with metal and receives equipment in return, and so on. Between the industries of Department I there is planned exchange of the means of production re-

quired in these industries in order to continue the production process, and this is how one part of the output of Department I is realised.

Another part of the output of Department I is intended to replace the means of production consumed in Department II, and a third part, which embodies surplus labour, goes to expand production in both departments.

In *Department II*, part of the output, as in Department I, is realised by means of internal exchange between the various industries and goes for the personal consumption of the workers employed in this department. Another part is intended for the consumption of the workers in Department I. A certain amount of the output of Department II must go to workers drawn additionally into production and must satisfy the requirements of those employed in the non-productive sphere and the non-able-bodied.

There is a planned, balanced exchange of output between Departments I and II. Department I provides the industries of Department II with machine-tools, machinery, mechanisms, fuel, materials and so on to replace the means of production used up and further expand production. Department II supplies Department I with consumer goods to satisfy the personal requirements of its workers and increase their consumption fund, in connection with the rise in consumption and the tasks of further expanding all production industries in Department I, and drawing new workers into it.

Thus, all the component parts of the aggregate social product are in constant motion, or interexchanged, in their physical and monetary form.

In order to ensure uninterrupted socialist extended reproduction, the following conditions are necessary:

*First*, the annual output of Department I, consisting of means of production, must, in both physical and value terms, be sufficient to: (a) completely replace, in both physical and value terms, the productive assets consumed in both departments during the creation of the aggregate social product; (b) increase the productive assets in both departments in accordance with the growing social requirements, i.e., accumulate the means of production necessary for expanding the scale of production; (c) create socially necessary stocks and reserves of productive assets.

*Second*, the annual output of Department II, consisting of consumer goods, must be adequate, in both physical and

value terms to: (a) supply workers in the two departments of socialist production, both those already working and those newly entering production, with consumer goods according to the principle of "to each according to his labour"; (b) supply those employed in the non-productive sphere (administration, education, health service, etc.) according to the same principle; (c) create socially necessary stocks and reserves of consumer goods.

Only if these conditions are observed can there be extended reproduction of the aggregate social product.

### The priority growth of the production of means of production

The most vital and necessary condition for socialist extended reproduction is the priority, i.e., more rapid, growth of the production of means of production (Department I) compared with the production of consumer goods (Department II). In order to expand production, first of all means of production must be produced, moreover in quantities sufficient not only for replacing the means of production used up during the production process, but also for expanding the volume of production in all sectors of the national economy.

Lenin considered the priority growth of the production of means of production compared with the production of consumer goods as an economic law of extended reproduction, the essence of this law being as follows.

The development of the productive forces of society, or technical progress, is accompanied by a rise in the share of embodied (past) labour in the social product and a drop in that of live labour. Manual labour is increasingly replaced by machine labour, and this raises its productivity and, consequently, the scale and volume of production. The priority growth of the production of means of production reflects the replacement of manual by machine labour, and the progress of technology in machine industry in general. It is both a result of and condition for technical progress.

Extended reproduction, accomplished on the basis of technical progress, is inseparably linked with the priority growth of the production of means of production.

In contrast to capitalism, under socialism the priority growth of the production of means of production is different in essence. It is accomplished not spontaneously or cycli-

cally, but consciously, and in a planned, balanced way, and is used for ensuring a steady rise in the welfare of the whole nation rather than for the enrichment of capitalists.

The achievement of socialism is only possible on the condition of priority of the production of means of production. The light and food industries, and agriculture, which satisfy people's requirements for consumer goods, cannot develop successfully and expand their production unless Department I supplies them with the necessary quantity of various types of machine, electricity, raw materials; unless the technical progress of these branches is ensured. In order, for example, to increase the production of fabrics, first a larger quantity of weaving and other machines has to be produced.

In the USSR, heavy industry raises its output of equipment and raw materials for light industry every year. The output of consumer goods is growing and growing. Consequently, there can be no conflict between Group A and Group B goods.

A clear example of this, for instance, is the introduction of chemical products into the national economy, both in the sphere of production and that of consumption, Departments I and II of social production.

The acceleration of the growth rate of Department II does not mean that the law of the priority growth of the production of means of production loses its force. The decisions of the 26th CPSU Congress state: "Develop at a priority rate the industries ensuring progressive structural shifts in the national economy and stable and balanced extended reproduction."<sup>1</sup>

## 2. THE NATIONAL INCOME AND ITS DISTRIBUTION UNDER SOCIALISM

### The national income

Under socialism, the *national income* is the part of the aggregate social product that is left over after the means of production consumed have been replaced and that embodies newly-expended live labour.

<sup>1</sup> Documents and Resolutions. The 26th Congress of the Communist Party of the Soviet Union, p. 167.



In its physical, material form, the national income consists of part of the newly produced means of production and the entire mass of newly produced consumer goods. It is used: *first*, as a source of the consumption fund of workers in the sphere of material production, thereby ensuring the reproduction of labour power; *second*, as a source of extended reproduction and the formation of the reserves necessary for the uninterrupted process of extended social reproduction; *third*, as a source for maintaining the non-productive sphere.

Since, under socialism, there is commodity production, the national income has a value as well as a physical form, and is expressed and measured through the medium of money. The magnitude of the national income calculated in comparative prices is called the physical volume of the national income.

The national income in socialist society differs basically from that in capitalist society. It differs in its economic nature, its sources, distribution principle and the way it is used.

Under capitalism, the national income is created as a result of the exploitation of the working people and is disposed of by the exploiting classes, the greater part of it being appropriated by capitalists and landowners and the smaller part going to the working people.

Under socialism, the national income is created by the labour of workers free from exploitation and belongs in its entirety to the working people. All the necessary conditions are created for a continuous and rapid growth of the national income.

Thus, in the USSR the produced national income was 13.6 times higher in 1980 than in 1940. In value terms, the national income of the USSR was 145 billion roubles in 1960, 290 billion in 1970 and 450 billion in 1980. In 1985, the national income will be 18-20 per cent higher than in 1980.

In socialist society the national income grows primarily as a result of the *rise in labour productivity*. Of major significance here is the development of science and culture, the production experience accumulated by people, the level of the knowledge and skills of the workers in socialist society.

In the USSR, the predominant part of the entire increment in the national income comes from higher labour pro-

ductivity, this factor being decisive in the creation of the national income. The higher labour productivity is, the greater the physical volume of the aggregate social product and, consequently, the greater the mass of the national income.

Another factor behind the growth of the national income of socialist society is the *increase in the number of workers employed in the branches of material production*, but this source is limited in nature. At the same time, there is a constant increase in the number of workers engaged in the non-productive sphere.

The socialist economic system ensures the most rational utilisation of society's labour resources, since, under socialism, unemployment is eliminated and there is an opportunity to make planned, balanced use of labour power in accordance with social requirements.

Finally, yet another growth factor for the national income is *economies of means of production*. A reduction in the inputs of raw and other materials and fuel per unit output, more effective use of the equipment available and productive area create additional resources for increasing output and, consequently, entail a corresponding increase in the national income.

## Distribution of the national income

The distribution of the national income under socialism takes place in a planned, balanced way for the purpose of ensuring extended socialist reproduction and a steady rise in the people's welfare.

The national income created in the economy consists of two parts: one part is the *necessary product* and is distributed between the workers employed in material production depending on the quantity and quality of their work. This part of the national income takes the forms of wages of factory and office workers in public enterprises, as well as of the incomes of collective farmers in kind and in money.

The other part of the national income is the *surplus product*, which goes to expand production and form reserves, to construct cultural and other amenities, create the social consumption funds and for other social purposes.

Under the plans for expanding socialist production in town and countryside, as well as for social requirements,

the socialist state redistributes the national income mainly through the state budget. Those groups of the population who work in the non-productive sphere receive their incomes through the redistribution of the national income.

The entire national income of socialist society breaks down into the consumption fund and the accumulation fund.

The *consumption fund* is the part of the national income that is used for satisfying the requirements of the population for foodstuffs, clothing, footwear, domestic and cultural items, and also for satisfying social needs. In the USSR, 80 per cent of the national income is spent for these purposes.

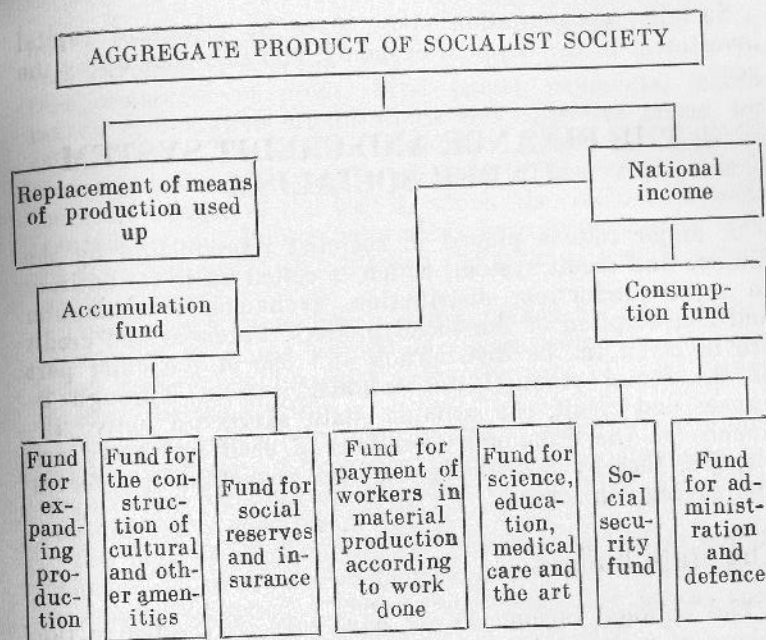
The consumption fund is formed from the products created by necessary labour, and also from part of the surplus product.

According to the way the consumption fund is used under socialism, it can itself be broken down into the fund for paying for the work done by workers in socialist production and the fund for social consumption, which is spent on socio-cultural needs, i.e., to cover requirements in the sphere of science, education, the health service, art, and so on, on social security (state aid to large families and to single mothers, pensions, etc.), to cover outlays on administration and defence (maintenance of the state machine, armed forces, and so on). The social consumption fund is of major significance for the rise in the people's well-being.

The *accumulation fund* is created from the surplus product. Materially, this fund is mainly output produced by Department I, but a certain part of the output of Department II is also accumulated (the accumulation of consumer goods for newly employed workers, the formation of reserves and stocks of consumer goods, etc.). In monetary terms, the accumulation fund is chiefly the means of the state budget, state and collective farm and co-operative enterprises, allotted for accumulation purposes. The accumulation fund consists of about 20 per cent of the national income.

In the way it is used, the accumulation fund can be broken down into three parts, one of which is used to expand production, another intended for financing and construction of cultural and other amenities (schools, hospitals, housing, etc.), and the third forms the reserve or insurance fund.

Distribution of the aggregate social product and national income can be expressed by the following schema:



### Socialist accumulation

Under socialism, there is no antagonistic contradiction between production and consumption, consumption and accumulation. Socialist society proceeds from the possibility of combining consumption and accumulation in such a way that the conditions are created for ensuring the most rapid rate of extended reproduction possible and the fullest possible satisfaction of the requirements of socialist society.

The ratio of consumption to accumulation under socialism is determined in accordance with the tasks of building socialism on the basis of the planned, balanced development of the national economy. The proportions between consumption and accumulation cannot be static or given once and for all, they are set specifically for a given period.

Socialist accumulation is the source of extended socialist reproduction. One result of socialist accumulation is a constant rise in the social wealth, productive and non-productive assets through the regular allocation of part of the surplus product for the continuous expansion of production for the purpose of ensuring a steady rise in the national welfare.



Socialist accumulation takes place by means of capital investment in the national economy, and this goes up by the year.

### 3. THE FINANCE AND CREDIT SYSTEM UNDER SOCIALISM

A major role is played in socialist reproduction by the finance and credit system, which is called on in its entirety to serve production, distribution, exchange, accumulation and consumption of the social product. Finances and credit are involved in the distribution and use of the chief part of the social product—the national income. Through finances and credit, the socialist state exerts an active influence on the economic operations of each and every enterprise, thereby facilitating the full revelation of reserves and savings on inputs.

#### The state budget

The national income, as we have seen, is created in the sphere of material production (in socialist enterprises) and a significant part of it goes into the accumulation fund, i.e., is used for further expanding production.

If enterprises themselves made direct use of this part of the national income for expanding their own production, however, it would not be possible to ensure a correct balance in the development of individual enterprises and sectors of the national economy, so a centralised accumulation fund is set up in the socialist economy and used as a source of financing for the construction of new enterprises, and the modernisation and expansion of existing ones.

The centralised accumulation fund is concentrated in the state budget, the chief link in the finance system of the socialist state. The *state budget* is the basis of the country's financial plan, by means of which a significant part of the national income is concentrated and used for satisfying social needs. It is drawn up in accordance with the national economic plan.

The state budget consists of a credit and a debit side.

The *credit side* of the state budget comes chiefly from revenues from socialist enterprises, including turnover tax, payments out of the profits of public enterprises and eco-

nomic organisations, payment for fixed productive assets and rationed circulating means, contributions out of the free remainder of profit, fixed (rent) payments, income tax on co-operative organisations and collective farms, forestry income, and so on. Revenues from the socialist economy make up over 91 per cent of the credit side of the state budget in the USSR, which also includes a social insurance fund. Public enterprises and organisations make set contributions to this fund in the form of special supplements to wages.

The Soviet state budget is distinguished by a small share of revenues from the population. Taxes levied on the population make up only about eight per cent of state budget revenues in the USSR.

The *debit side* of the state budget consists of the financing of the national economy, socio-cultural measures and science, the maintenance of the state administration bodies and defence expenditure.

The bulk of the funds in the Soviet state budget goes to finance the national economy and pay for socio-cultural measures and science. The share of budgetary means spent on maintaining the state machine is decreasing.

The USSR consistently pursues a policy of peace, so defence expenditures are kept to a minimum.

The state budget in socialist society grows regularly on the basis of a steady rise in the entire national economy. The budget of the USSR always has an excess of the credit over the debit side.

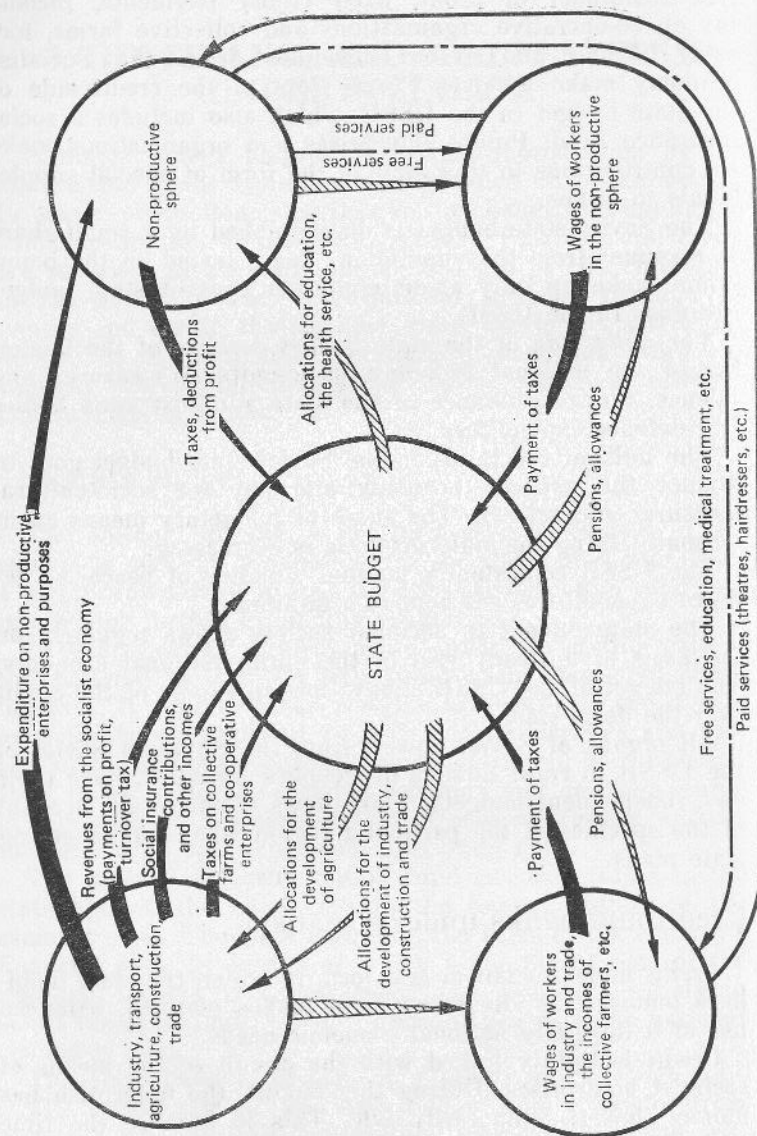
All organs of Soviet power, from the Supreme Soviet of the USSR to rural Soviets of People's Deputies, have their own independent budgets. This allows them to take account of the specifics of the particular region when implementing state plans.

#### Credit and banks under socialism

*Credit* under socialism is a form in which the state mobilises temporarily idle money and makes planned, balanced use of it to satisfy national economic needs.

Credit is tightly linked with the circuit of the means of socialist enterprises. During this circuit, the enterprise has money that is temporarily idle. This is because the time when payments are received for marketed output and the time when money is spent on production requirements do

Schema of the credit and debit of the state budget:



not coincide. Enterprises and economic organisations accumulate money in their accounts in the State Bank as their output is marketed, and this money is then spent over a certain period of time. The rise in the incomes of the working people is also accompanied by the formation of substantial sums of idle money, deposited in savings banks.

At the same time, some enterprises and economic organisations have idle money, while others require additional money. This additional money is required by enterprises and organisations, for instance, for the seasonal purchase of raw materials, the formation of production stocks, expenditure on the production and transportation of finished products, and so on.

Banks concentrate all the temporarily idle money in the national economy and use it to grant credit to the economic organisations and enterprises requiring it.

Credit can be short- or long-term.

*Short-term credit* is granted for a short period of time, usually a year. The unified centre of short-term credit in the USSR is the State Bank. Short-term credit is granted to enterprises and economic organisations to satisfy their temporary requirements for additional circulating means.

*Long-term credit* is credit granted for an extended period of time and used primarily for capital construction purposes. In the USSR, at the present time long-term credit is granted by the All-Union Bank for the Financing of Capital Investment (USSR Stroi bank). Long-term credit is granted for capital construction, for development of livestock breeding, for individual housing construction, for an increase in the production of consumer goods, improvement of cultural and other amenities, and so on. Credit for the capital outlays of state enterprises is also provided by the State Bank of the USSR (USSR Gosbank). Gosbank credit is granted for investment that will be rapidly recouped. This includes loans for the introduction of new technology and on the organisation and expansion of the production of commodities for the population. The State Bank also grants long-term credit to foreign states, especially those of the socialist community, on favourable, mutually advantageous conditions.

Credit institutions charge a certain amount of interest on the credit they grant, as well as paying interest on deposits.

The difference between the interest received and that paid out constitutes bank profit, which makes up part of



the net income of socialist society.

Under socialism, credit furthers the rational use of the means of enterprises, a growth of socialist production and a rise in its profitability.

The redistribution of temporarily idle resources between the industries and enterprises of the socialist economy is carried out by a ramified credit and banking system.

Under developed socialism, the need arises to expand credit relations, replace non-returnable financing with a system of returnable and time crediting. This is promoted by a further development of cost accounting relations between enterprises (associations) and banks, and the consolidation of enterprises' own financial basis.

*The credit and banking system* in the USSR consists of: (1) the State Bank, (2) the All-Union Bank for the Financing of Capital Investment (USSR Stroi bank), (3) the Bank for Foreign Trade of the USSR (Vneshtorgbank) and (4) state savings banks.

The leading position in the credit and banking system belongs to the *State Bank*, which is the chief bank granting short-term crediting of the national economy, the country's accounting and cash centre. It is through the State Bank that all settlements are made between economic organisations and establishments, payments pass into the budget, and settlements are made between establishments and organisations and the population. The State Bank is also the only bank of issue: it issues money into circulation, plans and regulates money circulation. Finally, this bank is the country's only currency reserve centre, and it carries out international settlements.

The State Bank of the USSR is the world's biggest bank. It has over 6,000 branches (republican, territory, regional and city offices, district branches and local receipt banks), which carry out an enormous volume of accounting and credit operations.

*The All-Union Bank for the Financing of Capital Investment* (Stroi bank) is responsible for the financing and long-term crediting of the capital construction of enterprises, as well as the short-term crediting of contract construction organisations, and carries out settlements between clients and contractors.

Like the State Bank, Stroi bank checks on the fulfilment of plans for construction work, on the correct utilisation of means and reduction in the costs of production.

The *Bank for Foreign Trade of the USSR* (Vneshtorgbank) credits Soviet foreign trade, carries out currency operations, settlements for the export and import of goods and services, as well as other settlements. It promotes the development of commercial and other economic links between the USSR and other countries, and that of internal trade and industry connected with exports and imports.

Apart from the major banks, there are other credit institutions—savings banks. State savings banks accept money deposits from the population, collective farms and social organisations. They also serve the population in operations with state loans, accrediting and other cash operations. In socialist society, temporarily idle money belonging to factory, office and professional workers and peasants and deposited in savings banks is used for financing socialist development. The savings banks pay depositors a certain interest.

In socialist society, the continuous growth of the people's material welfare has accounted for the tremendous development of savings banks. In the USSR, for instance, in 1980, private deposits in savings banks amounted to roughly 156.2 billion roubles, compared with 0.7 billion in 1940.

## REVISION EXERCISES

1. What is the essence of socialist reproduction?
2. What are the parts, in value and physical terms, of the aggregate social product?
3. What are the factors behind the growth of the aggregate social product and the national income?
4. Why is the priority growth of the production of means of production necessary?
5. Describe the national income and its distribution under socialism.
6. What is the role of finance and credit in socialist reproduction?
7. What is the state budget and what are the sources of its credit side?
8. For what purposes are the means of the state budget spent?
9. What is credit and what accounts for the need for it under socialism?
10. What are the different forms of credit?
11. Describe banks and their functions under socialism.

## Chapter XVII

# THE WORLD SOCIALIST SYSTEM

## 1. THE EMERGENCE AND DEVELOPMENT OF THE WORLD SOCIALIST SYSTEM

The chief content and main feature of the present age is the transition from capitalism to socialism, initiated by the Great October Socialist Revolution. This transition is an inevitable historical process. The October Revolution ushered in a new age in world history and put an end to the undivided sway of capitalism.

The emergence of the socialist economic system in the USSR was of tremendous international significance and exerted a decisive influence on the entire subsequent course of world development, thereby fundamentally changing the socio-political map of the world.

The socialist revolutions in a number of countries of Europe and Asia and in Cuba were a continuation of the October Revolution in Russia.

As a result of the victory of socialist revolutions and the withdrawal of a number of countries from the capitalist system, the world socialist system emerged and began to develop. The formation of the world socialist system has been the main result of the progressive development of society in the present age.

The *world socialist system* is not simply the sum total of the states that have withdrawn from capitalism—it is a social, economic and political community of free, sovereign peoples, advancing towards socialism and communism, united by common interests and goals, and the close ties of international socialist solidarity.

The economic basis of the world socialist system is so-

cialised ownership of the means of production in its two forms: public and co-operative. Socialist property predominates in the USSR and the other socialist countries. The development of socialist production in the countries of socialism is subordinated to the general goal of satisfying, as fully as possible, the growing material and cultural requirements of the people.

The political basis of the world socialist system is the power of the people, headed by the working class. The guiding and directing force in the socialist countries is the fraternal Communist and workers' parties. The socialist countries have a common interest in defending the revolutionary gains and their independence against imperialist encroachments.

The world socialist system is characterised by unity of ideology: Marxism-Leninism, and their goal is to build socialism and communism. The socialist countries have common tasks in the struggle against capitalism and its imperialist policy.

The development of the world socialist system and the world capitalist system follows totally opposite laws. The world capitalist system took shape and developed in the course of an extremely fierce struggle between the states that make it up, with the strong ones subordinating and enslaving the weaker ones, but the formation and development of the world socialist system is taking place on the basis of sovereignty and full voluntariness, in accordance with the basic, vital interests of the working people in all the socialist countries.

Inherent in the world capitalist system are the law of uneven economic and political development, spontaneity and anarchy of social production. Inherent in the world socialist system are other, radically different laws, ensuring the steady, planned, balanced growth of the economies of all the countries involved, and this leads to a general rise and consolidation of the world socialist system as a whole.

The economy of world capitalism develops slowly, experiencing crises and disruptions. That of the socialist countries is characterised by rapid and stable growth rates, an overall, continuous rise in the national economies of the individual socialist countries. The total volume of industrial production in the socialist countries in 1980 was 14 times greater than in 1950. The respective figures for in-



dividual countries were 12 times for the USSR, 14 times for Poland, merely 8.5 times for Czechoslovakia, about 9.5 times for the GDR, some 8.5 times for Hungary, 33 times for Romania, 24 times for Bulgaria and 16 times for Mongolia.

The socialist countries have solved or are successfully solving the most difficult problem involved in socialist construction—the voluntary transfer of the peasantry from small individual holdings to large-scale mechanised, co-operative socialist farming. This testifies that, as a result of the indestructible fraternal co-operation between workers and peasants, socialist relations of production have triumphed not only in the towns, but also in the countryside. The share of the socialist sector in the total area of agricultural land in the socialist countries is over 90 per cent.

The high level of economic development of the socialist countries makes it possible for them to ensure a steady rise in the material welfare and cultural standard of living of the working masses. In these countries, the national incomes are growing rapidly, and about four-fifths goes to satisfy the people's fast growing requirements.

*The world socialist system has now entered a new stage in its development.* The Soviet Union has successfully built a developed socialist society, and is now creating the material and technical basis for communism. The other countries of the world socialist system are laying the foundations for socialism, and some of them have already entered the period of building a developed socialist society. The dominant role in the economies of the socialist countries is played by socialist relations of production.

The countries of the world socialist system, many of which used to be backward, have now become flourishing socialist states. Only a very short period of time, in historical terms, was required for them to overcome their former economic backwardness, to create and develop their own modern industries.

The planned economies of the socialist countries develop significantly faster than those of the capitalist states. But the establishment of the world socialist system is a complex and multifaceted process, connected with overcoming difficulties of both an objective and subjective nature. Fraternal relations and co-operation are organised between countries with far from identical economic levels of

development, historical and cultural traditions and links, and social structures.

Experience has shown that, wherever they are able to exert an influence, petty bourgeois elements attempt to hamper the normal course of socialist transformations, to set the socialist countries against one another, and to revive opportunist, revisionist and nationalistic views, on which imperialism plays. This danger grows whenever a departure from the principles of Marxism-Leninism is permitted.

The socialist world has now entered a development stage providing an opportunity for making significantly fuller use of the mighty reserves contained in the new system. This is facilitated by the elaboration and introduction of the most advanced economic and political forms, corresponding to the requirements of a mature socialist society developing on the basis of the new social structure.

The world socialist system is becoming the *decisive factor in the development of human society*.

While Marxism-Leninism attaches tremendous importance to the national-liberation movement, it also believes that the chief essence, direction and main specifics of world development in the present age are determined by the world socialist system, the forces fighting against imperialism and struggling for a restructuring of society along socialist lines.

The main document of the 1969 International Meeting of Communist and Workers' Parties state: "*The main direction of mankind's development is determined by the world socialist system, the international working class, all revolutionary forces.*"<sup>1</sup>

The primary role of the world socialist system in the world-wide revolutionary process is seen in the fact that, first, the working class and other working people of the socialist countries are creating a new society without oppression or exploitation. By creating the material and technical basis for socialism and communism, the socialist countries deal a blow to imperialism in the decisive sphere of social activities—that of material production. When the working people in the capitalist countries see the successes scored by the socialist states in economic develop-

<sup>1</sup> *International Meeting of Communist and Workers' Parties, Moscow, 1969, p. 13.*

ment, the improvement of the people's standard of living, the development of democracy and the involvement of the broad population in running the state, it is brought home to them that only on the way to socialism and communism it is possible to satisfy the working people's needs. All this revolutionises the masses, helps to involve them in the active struggle against capitalist oppression and for national liberation and social emancipation.

Second, as time goes on, the role of the socialist states grows increasingly as a force directly opposing the aggressive plans of imperialism. Now that the might of the Soviet Union and the entire socialist community paralyses the main forces of international reaction and aggression, the peoples of the developing countries have more favourable opportunities for fighting imperialism and internal reactionaries. There is a very close link between the successes of the revolutionary struggle in the capitalist countries, the victories of the national liberation movement and the growing might of the world socialist system.

The formation of the world socialist system and its strengthening unity and solidarity signify "a type of truly just, equal, and fraternal relations between states never seen in history before".<sup>1</sup>

## 2. CO-OPERATION AND MUTUAL ASSISTANCE— THE BASIS OF THE ECONOMIC RELATIONS BETWEEN THE COUNTRIES OF THE WORLD SOCIALIST SYSTEM

Co-operation and mutual assistance between the socialist countries on the basis of their unity of economic, political and ideological foundations has entailed the formation of the world socialist system.

The system of the socialist world economy is a totality of national economic complexes of sovereign socialist states, closely linked by comprehensive economic, scientific and technical co-operation, the international socialist division of labour and the world socialist market.

<sup>1</sup> Documents and Resolutions. The 26th Congress of the Communist Party of the Soviet Union, p. 8.

The ideas of friendship, co-operation and mutual assistance between the socialist countries are fixed in the constitutions of most of the fraternal countries. "The new Constitution of the USSR declares friendship, co-operation and mutual assistance with other socialist countries the cornerstone of Soviet foreign policy."<sup>1</sup>

## The new type of economic and political relations

*A new type of economic and political relations*, previously unknown in history, is emerging between the countries of the socialist community. These relations between the socialist countries are built on the principles of full equality, respect for territorial integrity, state independence and sovereignty, and non-interference in one another's internal affairs. But these basic principles do not exhaust the essence of the relations between the socialist countries. Another of their integral features is mutual, fraternal assistance, reflecting the principle of proletarian internationalism. A strengthening of the unity of the world socialist system on the basis of proletarian internationalism is an essential condition for the further success of all its member states.

Each socialist country is always in need of comprehensive co-operation with the other socialist states. At the present time, with the world split into two systems, the very existence of many socialist countries and their successful advance are only possible because there is a world community of socialist countries and because they can rely on the economic might and political unity of this community.

The multilateral fraternal co-operation between the countries of socialism allows maximum use to be made of the advantages of the world socialist system for speeding up the development of each country's productive forces and strengthening the economic might of the countries of socialism in general.

The establishment of a new type of economic and political relations is a natural event, with firm socio-economic and ideological foundations. They arise out of the very essence of the socialist system, i.e., out of the domi-

<sup>1</sup> Ibid., pp. 9-10.



nation of socialist relations of production. As a result, the mutual relations between the socialist countries include no striving towards economic expansion, no-domination or subordination.

In the world socialist system, the economic links and relations between the states are accomplished in accordance with the requirements of the economic laws of socialism and are subordinated to the task of continually expanding production on the basis of advanced technology, in order to raise the welfare of the working people.

### The international socialist division of labour

The development and strengthening of the economic co-operation between the socialist countries takes place on the basis of the *international socialist division of labour*. The division of labour between the socialist countries differs fundamentally from that in the world capitalist system. The international capitalist division of labour is accomplished spontaneously during a fierce competitive struggle and the pursuit of profits. The socialist international division of labour is accomplished in a planned way, on the basis of the operation of the law of the planned, balanced development of the national economy.

Socialism created, for the first time ever, the necessary conditions for equal and mutually beneficial co-operation between big and small nations. It ensures a strengthening of the economies of the independent states making up the world socialist system. Harmoniously complementing one another, the socialist countries are enabled to economise on forces and means for the comprehensive development of their productive forces. Each country can, on a mutual basis, make use of not only its own resources, but also those of the other countries of the community. This makes possible a more rational use of all the economic resources of the world socialist system in order to speed up the development of the economy and raise the well-being of the peoples of all the socialist countries.

The international socialist division of labour allows each country to focus on those branches of social production for which it enjoys the most favourable conditions, i.e., natural and material resources, production base, workers, engi-

neers and technicians, level of development of production, and so on.

The main principles behind the international socialist division of labour are:

- consideration of the objectively necessary proportions in the economic development of individual countries and the world socialist system as a whole, facilitating the balancing of the economy;

- ensurance of a high economic effectiveness of the international division of labour, expressed in rapid production growth rates and the fullest possible satisfaction of the requirements of the population in each country;

- a combination of the international specialisation in production and comprehensive development of the economies of individual countries in order to make more rational use, in all countries, of the natural and economic factors of production, including labour resources;

- a gradual overcoming of the historical differences in economic development levels, making maximum use of each country's resources and the advantages of the world socialist system.

The international socialist division of labour harmoniously combines the tasks of developing the national economy of each country with the international tasks of developing the entire world system of socialism.

### Specialisation and co-operation of production

The international socialist division of labour presupposes specialisation and co-operation in production. *Specialisation in production* within the world socialist system means the priority development of certain industries in those countries where the given output can be produced most cheaply. *Co-operation in production* acts as an interlink between mutually complementary, specialised production units, for the purpose of obtaining the maximum possible economic effect in the manufacture of some individual product.

Specialisation and co-operation in production, as progressive forms of the international socialist division of labour, first, make it possible to ensure a high degree of concentration of the output of similar product in one

or a few countries in order to satisfy the requirements of all the other countries; second, are geared to achieving the highest world-wide standards in the quality and technological level of output.

Specialisation and co-operation in production take account both of the specific interests of each individual country and the common interests of the socialist community. They facilitate better use to be made of the socialist countries' production capacities, the organisation of mass and large-batch production, the reducing of production costs and improvement of output quality.

In the process of economic co-operation and extension of production specialisation, the industrial profiles of the individual socialist countries emerge, and their place in the system of economic links between the socialist states is determined.

For instance, in Czechoslovakia it is primarily heavy and power engineering, and certain light industries that have been developed; the German Democratic Republic specialises in heavy power engineering, precision mechanics, optics, and the production of chemicals; in Romania, there has been broad development of oil-refining and the manufacture of equipment for the oil industry, and so on.

At the same time, while most of the socialist countries specialise in the production of specific types of output, a country like the USSR has an enormous territory, diverse natural resources and a large population, so it develops all the main industries. Yet this does not exclude the USSR's broad participation in the international socialist division of labour; on the contrary, it creates the most favourable conditions for the development of specialisation and co-operation in production within the world socialist system.

### The evening out of the development levels of the socialist countries

In the world capitalist system, the international division of labour led to the formation of developed imperialist states, on the one hand, and of backward, agrarian countries, on the other, whereas, in the world socialist system, the international division of labour is expressed in a planned, balanced and rational location of production among the socialist countries.

The socialist international division of labour helps to level out economic development of the countries of the world socialist system: first, there is a gradual levelling out of the per capita production of the key industrial and agricultural products; second, the differences are overcome in the amount of machinery available in production, in the cultural and technical level of the working people and, consequently, in the level of the productivity of social labour, too; third, the living standards of the nations draw together and level out.

Thus, a new objective law emerges within the world socialist system: it creates the conditions for closing the gap, inherited from capitalism, between the levels of economic and cultural development of different countries, for the more rapid development of the states that were economically backward under capitalism and a steady rise in their economies and cultures, and for evening out the general development levels of the countries of the socialist community.

All the socialist countries need to attain a high level of economic development because socialism cannot come to terms with the economic and cultural backwardness inherited from the old system. The establishment of the new socialist relations of production opens up broad scope for a rise in the productive forces and accelerated economic development of all the countries making up the world socialist system.

As a result of the operation of the new laws of social development, by relying on the experience of the other socialist countries, on co-operation and mutual assistance, the countries that were previously economically backward rapidly make up for lost time and raise their economies and cultures to a higher level. The drawing together of the economic development levels means that the countries of the world socialist community can no longer be divided into advanced and backward ones. At the present time, the vast majority of previously backward socialist countries have become developed states whose modern industries have a significance going far beyond national bounds.

The current stage in the development of the world socialist system is characterised by an accelerated movement of the socialist countries towards their common goal—socialism and communism, the all-round development of co-operation and mutual assistance, a rise of all the socialist



countries to a new and higher level of economic and political maturity. The comprehensive influence of the building of socialism and communism on the peoples of the non-socialist countries is continually growing. Lenin's prediction that socialism would make the greatest impact on international development through its economic successes has been fully born out. The growth of this influence is a major specific of the current stage in the development of the world socialist system.

### 3. THE MECHANISM AND FORMS OF ECONOMIC CO-OPERATION BETWEEN THE SOCIALIST COUNTRIES

The economic relations between the socialist countries consist of mutual exchange of activities in the process of the socialist international division of labour, which is manifested in all the diversity of forms of economic co-operation and is planned in character.

The chief forms of economic co-operation between the countries of the world socialist system are: co-ordination of national economic plans, mutual economic and technical assistance, scientific and technical co-operation and exchange of experience in the development of the economy, co-operation in staff training, foreign trade, and currency and financial co-operation.

#### Co-ordination of national economic plans

The international socialist division of labour, the specialisation and co-operation in production of the socialist states presuppose planned economic links between them.

In accordance with the law of the planned, balanced development of the national economy, the economic co-operation between the socialist countries develops on the basis of mutual *co-ordination of national economic plans*.

The co-ordination of plans is a new form of joint planning, inherent only in the socialist countries, which makes it possible to combine efforts in developing the national economy with those in consolidating and expanding the

world socialist economy. With its assistance, the necessary harmony is attained in the development of the mutually interwoven and mutually complementary sectors of the economies of individual countries, a balance of their payment relations, and a levelling out of their economic development.

Between the socialist countries it is primarily the indicators of long-term economic plans that are co-ordinated—those for five or more years.

Each country plans its own economy, co-ordinating its development with that of the national economies of the other countries. This creates a firm basis for all-round economic co-operation between the socialist countries, for a rise in the economy of each state and of the entire world socialist system.

Co-ordination of national economic plans allows the socialist countries to set the correct proportions between the branches of production not only within individual countries, but also between them. These rational proportions are established on the basis of comradely agreement through the conclusion of equal and mutually beneficial contracts between socialist states.

The co-ordination of economic plans takes account of mutual interests, production possibilities and the requirements of the economy and population of each country, the need to increase each country's economic might, strengthen its independence, and raise the material and cultural living standards of the working people.

The co-ordination of long-term plans for the economic development of the socialist countries opens up broad opportunities for more effective use to be made of the advantages of the international socialist division of labour and ensures the maximum development of the productive forces of the entire world socialist economic system and of each country individually, taking into account its natural and economic conditions, as well as national specifics.

The co-ordination of production programmes is widespread on a bilateral and multilateral basis. A major role in this is played by the elaboration and fulfilment of *long-term special programmes for co-operation* in the key industries of material production. Their purpose is to combine the socialist countries' efforts in meeting the rapidly growing demand for energy, fuel, the chief raw materials, in speeding up the development of engineering and trans-

port, and better satisfying the demand for consumer goods and foodstuffs.

In 1949, the Council for Mutual Economic Assistance (CMEA) was set up on the principles of full equality of all participant states, to organise the planned, balanced economic co-operation between the socialist countries. The CMEA is an intergovernmental economic organ of the socialist countries and is called on to organise the exchange of economic and technical experience, render mutual assistance in raw materials, foodstuffs, machinery and equipment, co-ordinate the plans for the development of the socialist countries' economies on the basis of a rational division of labour between them.

The Council's members are Bulgaria, Czechoslovakia, Cuba, Hungary, the GDR, Mongolia, Poland, Romania, the USSR, and Vietnam, with Yugoslavia participating in a number of CMEA organs.

According to the CMEA Charter, the chief goal of this international organisation is by means of unification and co-ordination of the efforts of the member states, to further the planned, balanced development of their national economies, an acceleration of economic and technical advance, a rise in the level of industrialisation of the countries, a continuous growth of labour productivity and steady rise in the well-being of the people. The work of the CMEA is the organisational embodiment of the principles of the new type of international economic relations—socialist mutual assistance and fraternal co-operation in order to ensure a steady, overall growth.

The sovereignty and equality of the CMEA countries is ensured by their equal representation on the Council's organs, which make recommendations and decisions on the agreement of all the states interested in the issue under consideration.

The principles of the countries' interests allow co-operation to be developed between those states that recognise this as being beneficial, for not all the CMEA countries are equally interested in all international measures.

The CMEA is an open international organisation, which other states can join, provided they share the goals and principles of the Council and express a desire to co-operate on the basis of these principles.

The supreme organ of the Council is the session, which is convened in the capitals of each of the member coun-

tries in turn. Plenipotentiary delegations of the member countries take part in the work of the CMEA session.

The sessions decide major issues involved in extending the economic links between the states making up this organisation. The 23rd CMEA Special Session, in which the leaders of the Communist and workers' parties and heads of government of the member countries took part, held in Moscow in April 1969, occupies a particularly important place. It determined the guidelines for the elaboration of a long-term, comprehensive programme for the development of the CMEA member countries' economic integration.

Between sessions, several times a year, there are meetings of the Executive Committee, consisting of representatives from all the countries. The Executive Committee is entrusted with fulfilling the tasks facing the CMEA and checking on the implementation of the decisions taken by its organs. The Executive Committee directs the work of the CMEA Secretariat and standing committees for economic, scientific and technical co-operation. The CMEA headquarters are in Moscow, the capital of the USSR.

The economic integration of the socialist countries requires effective co-ordination of the long-term national economic plans and of economic policy, joint economic programming of the development of the key industries and types of production.

The strengthening of the joint planning presupposes a high scientific level of national plans and their precise fulfilment, a unity of the principal methods of planning and collection of statistics, comparability of the chief indicators of the national economic plans, joint elaboration of data on production and consumption of the main products in all the socialist countries or groups of interested ones.

The planned co-ordination of the economic development of the socialist countries' economies is engendered by the very nature of socialism and meets the basic interests of the working people of all the socialist states.

### Mutual economic and technical assistance

Of major significance for the development of industry, agriculture and other sectors of the economies of the socialist countries is mutual economic and technical assistance in



the construction of various projects essential for the national economy.

Soviet assistance to the other socialist countries covers virtually all industries of the national economy. In 1979, Soviet deliveries of complete equipment went to 540 projects, of which 120 are already fully or partially operating. The Soviet Union assists in the construction of various projects in Bulgaria, Czechoslovakia, Cuba, the GDR, Hungary, Mongolia, Romania, and the Korean Democratic People's Republic. Mutual economic assistance on a broad scale is also rendered by the other socialist countries. For instance, Czechoslovakia supplies equipment for projects in Bulgaria, Cuba and Romania; Vietnam receives technical and economic support from Bulgaria, the GDR, Hungary and Poland.

The long-term special programme for co-operation in the sphere of energy, fuel and raw materials envisages a complex of measures furthering the satisfaction of the CMEA countries' rational requirements for fuel and raw material resources. A major sphere of co-operation is the construction of atomic power stations in the CMEA countries with Soviet assistance. By 1990, the capacity of such power stations will have reached about 37 million kW. It has been calculated that the atomic power stations will save about 70 million tonnes of conventional fuel a year. Substantial savings will also result from the elimination of long-distance transportation of the fuel required by thermal power stations.

An important place in the economic relations between the socialist countries belongs to the joint construction of enterprises, which is one of the new and most promising forms of economic co-operation. Thus, the Mir power grid, which unites those of Czechoslovakia, Poland, Hungary, the GDR, the Western part of the USSR and Romania, was created in this way. The Druzhba oil pipeline for transporting Soviet oil was built by the joint efforts of the USSR, Poland, Czechoslovakia, the GDR and Hungary. The Soyuz gas pipeline, which transports Soviet gas to Bulgaria, Hungary, the GDR, Poland, Romania and Czechoslovakia, is functioning successfully.

Agreements on the joint construction of large-scale projects lead to stable specialisation and co-operation in production.

## Scientific and technical co-operation

The exchange of scientific and technological achievements and advanced production experience is developing increasingly between the countries of the world socialist system. The scientists of the socialist countries resolve the most pressing problems of science and technology in close collaboration with one another. The multilateral scientific and technical co-operation involves over three thousand scientific research and design organisations and higher educational institutions in the CMEA countries, including about 200 scientific establishments of their academies of sciences.

Scientific and technical co-operation involves the exchange of the most important achievements of science and technology, and various design documentation, assistance in carrying out design, prospecting and experimental work, exchange of experience, help in training and raising the qualifications of personnel, and so on.

Initially, scientific and technical co-operation consisted primarily in the mutual transfer of technical experience and documentation on types of technology already in operation. As economic integration develops, scientific and technical co-operation is becoming concentrated on the joint elaboration, by various countries, of new problems involved in scientific and technical progress. This co-ordination of research work in the sphere of scientific and technical progress is objectively inevitable, since only by joint efforts can the current problems of science and technology be rapidly and effectively elaborated without excessive duplication.

A clear example of the effectiveness of scientific and technical co-operation between the CMEA countries is their co-operation in space research. Under the Interkosmos programme, flights have been made by international space crews, including cosmonauts from the other socialist countries, together with Soviet ones.

The broad exchange of achievements in science and technology and of advanced production experience between the socialist countries furthers the development of the productive forces on the basis of the most sophisticated technology. The socialist countries have a vital interest in the development of this form of their international ties.

Since the initiation of the CMEA, the socialist countries have given one another large numbers of complete sets of scientific and technical documentation.

Scientific and technical co-operation frees each socialist state from having to spend time, money and energy on elaborating scientific and technical problems already solved by the other fraternal countries.

An important aspect of scientific and technical co-operation between the socialist countries is that in personnel training. The higher educational institutions of the CMEA countries regularly train large numbers of young people from the fraternal states. Co-operation also involves experts and workers undergoing production training in the enterprises of the other socialist countries as well as trips by scientists and experts for raising their qualification at research institutes and higher educational institutions of fraternal countries.

## Foreign trade

Trade between the socialist countries is a major form of their economic co-operation. The formation of the world socialist economic system gave rise to the world socialist market where there is no room for anarchy or rivalry, spontaneous price fluctuations, non-equivalent exchange, trade wars, discriminatory restrictions or the exploitation and plundering of some countries by others.

Foreign trade between the socialist countries develops according to a plan elaborated in advance and on mutually advantageous terms which serve to promote the economic development of each individual country. Trade is conducted at fair and stable prices fixed by voluntary agreement for a more or less long period (usually for five years), taking world prices into account. Co-operation and fraternal assistance are characteristic of foreign trade on the world socialist market.

The world socialist market is never depressed, its absorptive capacity is constantly growing as a result of uninterrupted growth in production and a rise in the material and cultural level of the working people in the socialist countries. "All of us have a stake in the socialist market being able to meet the rising needs of the countries of our community. And the benefit of augmenting each other's economic potential is certainly not confined to the purely commercial field."<sup>1</sup>

<sup>1</sup> *Documents and Resolutions. The 26th Congress of the Communist Party of the Soviet Union*, p. 13.

Trade relations between the socialist countries are based on long-term agreements on mutual deliveries, setting terms of payment, the amount and prices of commodities.

The foreign trade of the socialist countries serves as a major means for developing their economies and cultures. This promotes a systematic rise in the standard of living and ensures full employment.

The state monopoly of foreign trade in all the socialist countries not only protects their economies from imperialist economic aggression; it also furthers the development and strengthening of the ties between the socialist countries.

The continuous rise of the socialist countries' economies results in a change in the structure of their exports and imports. With the exception of Czechoslovakia and the GDR, all the countries, which are now the members of the CMEA, exported mainly raw materials and foodstuffs before the war, but this is no longer the case. For instance, before the war Bulgaria's exports consisted mainly of agricultural products, but since 1970 the bulk of them has been made up of industrial output.

## Currency and financial co-operation

The successful development of the socialist countries' economies, and the various forms of economic co-operation and trade between them, are accomplished by means of currency and finance relations.

A major role in strengthening the economic co-operation between the socialist countries is played by credit agreements. The socialist countries have created their own system of international credit, a socialist type system. The international credit between the countries of the socialist community is directed to speeding up economic development and raising the material welfare and cultural level of the socialist nations. Moreover, the credit is granted on the most privileged conditions. The capitalist countries charge very high interest rates (from 3.5 to 6 per cent per annum) on their credit and attach the credit to all sorts of economic and political conditions, whereas the interest on the credit between the countries of the socialist community is usually 1-2 per cent per annum. In certain cases, the credit is granted free of charge. Credit agreements never contain



any inequitable political or economic conditions concerning the use of the credit. Credits are, as a rule, paid off in the form of the given country's traditional exports.

In 1964 the *International Bank for Economic Co-operation* was set up within CMEA to carry out multilateral settlements in a special currency—the transferable rouble. This facilitated and simplified the multilateral accounts between the socialist countries and created favourable opportunities for a further development and increased efficiency of their mutual trade. The pursuance of a co-ordinated investment policy, acceleration of the construction of major projects of mutual interest, as well as of joint enterprises, are furthered by the *International Investment Bank*, set up in 1970 with a capital consisting of contributions made by the members of the bank in the form of convertible currency and transferable roubles.

The currency and finance relations between the socialist countries are continually and constantly improving; the role of the transferable rouble is growing as a collective currency in the increasingly broad economic relations between the CMEA members.

The international credit of the socialist countries allows the economically less developed ones to speed up their development, create a firm base for industrialisation of the national economy, and draw closer to the economically more advanced socialist countries in terms of their economic development levels.

Socialist international credit stimulates the effective use of investment in the national economy, the creation of a rational structure of the international socialist division of labour, and furthers a constant expansion of the trade links between the socialist countries on a mutually beneficial basis. The development of the credit relations between the countries of the world socialist system expresses the essence of the socialist-type economic relations.

### Socialist economic integration

Socialist economic integration is the unification and planned co-ordination of the socialist countries' efforts in order to fulfil the key socio-economic tasks involved in further developing the productive forces, to achieve the highest possible scientific and technical level, raise the people's

welfare, strengthen the defence capability of each country and of the entire socialist community.

The need to make use of socialism's advantages instigated a search for new forms of socialist economic integration. "During the years of building socialism the fraternal countries gained diverse positive experience in organising production and management and in resolving economic problems."<sup>1</sup> Therefore, in accordance with the decisions of the 23rd and 24th sessions of the Council for Mutual Economic Assistance, the 25th Session, in July 1971, elaborated and adopted the *Comprehensive Programme for the Further Extension and Improvement of Co-operation and the Development of Socialist Economic Integration of the CMEA Member Countries*.

The Programme is to be implemented, stage by stage, over a period of 15 to 20 years.

As the Comprehensive Programme stresses, the development of the socialist economic integration of the CMEA countries is a process consciously planned and regulated by the Communist and workers' parties and governments of the CMEA member countries, a process of the international socialist division of labour, of the drawing together of their economies and the formation of a modern, highly effective structure for the national economies, a gradual drawing together and levelling out of their economic development, the formation of deep and stable ties in the key branches of the economy, science, and technology, the expansion and strengthening of the international market of these countries and improvement of commodity-money relations.

The comprehensive programme for the further extension and improvement of co-operation and development of socialist economic integration is based on the principles of socialist internationalism, equitability and mutually advantageous assistance.

The CMEA member countries are continuing to develop their economic links with other socialist states, as well as with capitalist and developing ones. They are coming out actively for complete elimination of discrimination in world trade and economic relations, and for a consistent spread of the most favoured nation status.

Socialist economic integration is an objectively condition-

<sup>1</sup> *Ibid.*, p. 10.

ed and law-governed process. It is dictated by the high level of development of the productive forces achieved by the CMEA countries. The unification of the economic potentials of these countries, the close interweaving and co-ordinated, planned and balanced development of their national economies allow them to ensure even better and more fully the flourishing of the economy of each country and, at the same time, to make full use of the economic laws and advantages of socialism on the international scale.

The successes of the economic co-operation and growing might of the world community of socialist countries are an earnest of the victory of socialism in the economic competition with capitalism.

#### 4. PEACEFUL COEXISTENCE AND THE ECONOMIC COMPETITION BETWEEN THE TWO WORLD SYSTEMS

##### The essence of peaceful coexistence

The question of peaceful coexistence and economic competition between socialism and capitalism was theoretically substantiated by Lenin. He proceeded from the fact that the socialist revolution cannot triumph simultaneously throughout the world, so, for a more or less extended period, one or a group of socialist countries would develop while capitalism remained in a number of others.

The existence of the two systems—that of socialism and of capitalism—makes *peaceful coexistence between them* inevitable.

Peaceful coexistence does not mean a rejection of the class struggle. The coexistence between states with different social systems is a *form of class struggle between socialism and capitalism*. Neither does peaceful coexistence mean that the two ideologies, the socialist and the capitalist, come to terms. On the contrary, it presupposes a step-up in the struggle of the working class and its parties for the triumph of the ideas of socialism and communism.

The Soviet people and the working people of the socialist countries do not like the capitalist system, any more than the socialist system appeals to the ruling circles of the capitalist countries. The people of each country are them-

selves responsible for establishing one of these systems or the other, so the mutual relations between the two opposing socio-economic systems must take shape on the basis of the principle of peaceful coexistence.

Today, when there are atomic, hydrogen and neutron weapons of mass destruction, the very possibility of a war must be excluded once and for all. Only one course remains, that of peaceful coexistence and peaceful economic competition between socialism and capitalism. At present, recognition and steady implementation of the principle of peaceful coexistence is a vital condition for maintaining and consolidating peace and the security of nations.

"Peaceful coexistence of the socialist and capitalist countries is an *objective necessity* for the development of human society," reads the CPSU Programme. "*War cannot and must not serve as a means of settling international disputes*. Peaceful coexistence or disastrous war—such is the alternative offered by history."<sup>1</sup> The prevention of war has become a particularly pressing task in view of the development of destructive nuclear weapons, which are capable of claiming countless victims.

What exactly is peaceful coexistence?

Above all, it means rejection of war as a means for settling disputes between states and their solution by means of negotiations. This far from exhausts the concept of peaceful coexistence, however. Apart from obligations not to attack, it presupposes, also, that all states should commit themselves not to violate the territorial integrity or sovereignty of other states in any form or on any pretext. Peaceful coexistence means non-interference in the internal affairs of other states for the purpose of changing their state system or way of life or for any other purpose, recognition of each nation's right to decide independently all questions involved in the development of their country.

Peaceful coexistence presupposes equal rights, mutual understanding and trust between states, and consideration of each other's interests. It envisages that the political and economic relations between countries must be built on the basis of mutual benefit.

The principle of peaceful coexistence between states with different systems is the general line of the foreign policy of the socialist countries. The Soviet Union has consistently

<sup>1</sup> *The Road to Communism*, p. 506.



supported the policy of peaceful coexistence between states with different social systems and will continue to do so in the future.

The policy of peace arises from the very nature of socialism and corresponds to the interests not only of the peoples of the socialist countries, but also of those of all other nations in the world. Marxist-Leninist parties consider a consistent battle for peace not only as fulfilment of their historical mission before mankind—to avert the annihilation of peoples in the flames of a nuclear war—but also as a major condition for the successful building of socialism and communism, the development of the revolutionary struggle of the proletariat in the capitalist countries and of the liberation movement of the peoples oppressed by imperialism.

"The policy of peaceful coexistence does not contradict the right of any oppressed people to fight for its liberation by any means it considers necessary—armed or peaceful. This policy in no way signifies support for reactionary regimes.

"It is equally indisputable that every people has the inalienable right to take up arms in defence against encroachments by imperialist aggressors and to avail itself of the help of other peoples in its just cause."<sup>1</sup>

Peace is being guarded by the mighty socialist camp, headed by the Soviet Union. Together with the socialist countries, whose populations make up over a third of mankind, a large group of non-socialist countries that have no interest in unleashing wars also come out for peace. The number of neutral states is growing: they strive to protect themselves from the danger involved in participating in imperialist militarist blocs.

At the present time, the peoples are increasingly resolutely settling the questions of war and peace themselves. The anti-war movement of the popular masses is the major factor in the struggle for peace. A great organising force behind the struggle for peace is the international working class, the most implacable and consistent fighter against world war.

The possibility of averting a war is not, of course, realised on its own. It requires a tremendously energetic struggle for peace and vigilance with respect to sallies by its ene-

<sup>1</sup> *International Meeting of Communist and Workers' Parties, Moscow, 1969, p. 31.*

mies. It depends to a tremendous extent on the policy of the socialist countries, their defence capability and on the steady implementation of the Leninist principles of peaceful coexistence.

To curb the aggressors, free mankind from imperialism—this is the mission of the working class, of all anti-imperialist forces waging a battle for peace, national independence and socialism.

### The economic competition between socialism and capitalism

Peaceful coexistence means, above all, economic competition between the two systems, competition in which socialism is scoring more and more victories. "The decisive sector of the competition with capitalism is the economy and economic policy," states the Central Committee Report to the 26th CPSU Congress.<sup>1</sup> By consistently implementing the line of peaceful coexistence, the socialist countries achieve a steady strengthening of the positions of the world socialist system in the economic competition with capitalism.

Ultimately, the system that gives nations greater opportunities for improving their material and intellectual lives will be the one that triumphs. That system is socialism. It is socialism that creates unprecedentedly broad prospects for the inexhaustible creative upsurge of the masses, for a genuine flourishing of science and culture, for implementation of mankind's dream of a happy life, without poor and unemployed people, of a happy childhood, of a peaceful old age, of accomplishment of man's boldest plans and of man's right to create, truly freely, for the sake of the people.

In the economic competition between the two systems, it is the socialist system that will come out on top, but this will in no way mean that this victory will be attained through interference in the internal affairs of the capitalist states. It will be based on the advantages of the socialist economic system. Capitalism will inevitably be replaced throughout the world by a progressive, just social system—communism.

<sup>1</sup> *Documents and Resolutions. The 26th Congress of the Communist Party of the Soviet Union, p. 11.*

The economic competition between socialism and capitalism does not doom the masses in the capitalist countries to passive waiting; nor does it remove the need for a class and national liberation struggle. On the contrary, the tremendous significance of the victories of socialism in the economic competition with capitalism consists in the fact that they stimulate the class struggle of the working people, making them conscious fighters for their own emancipation. The imperialists are well aware of this, so they fear the socialist countries' successes in their development and strive to hold back their advance.

Particularly apt at the current stage in the competition between the two systems are Lenin's words to the effect that socialism's chief lever for exerting an impact on the world revolution is its economic policy, the creation of the technical and economic base for the new society, surpassing the productive forces of capitalism. "Once we solve this problem," Lenin pointed out, "we shall have certainly and finally win on an international scale."<sup>1</sup>

The economic competition between socialism and capitalism is a struggle for a higher level of per capita industrial and agricultural output, for the highest possible standard of living. In this competition, the advantages are clearly on the side of the Soviet Union, on the side of socialism. This is evidenced, above all, by the economic growth rates of the USSR and the USA.

In competing with the USA, the USSR has already substantially closed the distance separating it from the level of the American economy.

What are the indicators of the course of the economic competition between the two systems and its results? First, *economic growth rates*. Let us look at the figures on this. From 1950 to 1980, the industrial output of the socialist countries increased fourteenfold, while that of the capitalist ones—only about four times. This means that the world socialist system is developing its industry four times faster than capitalism is. From 1951 to 1980, the average annual rate of increment in the national income of the USSR was 7.4 per cent, while that of the USA was 3.3 per cent; of industrial output—8.7 against 4.0; of agricultural output—3.0 against 1.6 per cent in the USA.

<sup>1</sup> V. I. Lenin, "Tenth All-Russia Conference of the R.C.P.(B.)", *Collected Works*, Vol. 32, p. 437.

The high rates of economic growth are convincing evidence of the advantages of the world socialist system, an earnest of its victory in the economic competition with world capitalism.

Second, *the rise in the share of the socialist countries in world production*. In 1950, the share of socialism in world industrial output was only 20 per cent, while in 1980 it was already over 40 per cent.

Third, *the per capita production of the key products*. This is a generalising indicator characterising, in comparable terms, the per capita production level. Overall, in the world socialist system, the average world-wide level of production is exceeded: 33.1 per cent of the world population lives in these countries, while 40 per cent of world industrial output is produced here; moreover, the Soviet Union, which has a fifteenth of the world's population, produces a fifth of the world's industrial output. The CMEA countries produce three times more industrial output per capita than the world average.

Yet the countries of socialism are still behind the developed capitalist countries in these terms. The gap between the socialist and the developed capitalist countries in per capita industrial output is, however, gradually closing.

Fourth, *the growth of labour productivity*. In terms of this indicator, the gap between the socialist and the developed capitalist countries has closed markedly. From 1950 to 1980 the productivity of labour per worker in Soviet industry increased by 429 per cent, against 149 per cent in the USA. In Britain, France and the FRG this indicator for 1979 was 125, 260 and 256 per cent respectively. The USSR's lag behind the USA is still considerable, however. In 1980 the level of labour productivity in Soviet industry stood at 55 per cent of the US level.

Fifth, *the rise in the standard of living*. A rise in the people's welfare is a law of the development of the socialist economy. In 1980, the national income of the USSR was 8.3 times higher than in 1950, the corresponding figures for the other CMEA countries varying between 4.7 and 14 times. The rise in the national incomes is the basis for the steady increase in the people's standard of living, for high development rates of socialist production.

The programme outlined by the 26th CPSU Congress for improving the Soviet people's well-being is convincing indication or proof of the advantage of the socialist economy.



ic system, the purpose of which is to satisfy increasingly fully the people's constantly growing requirements.

In the peaceful economic competition, socialism is advancing on capitalism over a wide front. The task of ensuring economic victory in the competition with capitalism is being resolved by the USSR together with the other socialist countries. The Communist and workers' parties of the socialist countries see it as their international duty to make full use of the advantages of the socialist system and the internal reserves of each country, by developing their economies rapidly in accordance with the existing opportunities, in order, by their joint efforts, to ensure the full victory of socialism in the economic competition with capitalism in the shortest possible time.

The achievement of a superiority of the world socialist system over the capitalist system in material production will signify the world-wide historical victory of socialism.

#### REVISION EXERCISES

1. The emergence and development of the world socialist system.
2. Describe the new type of economic relations between the socialist countries.
3. What is the essence of the division of labour between the socialist countries?
4. What are chief forms of economic co-operation between the socialist countries?
5. Talk about the Council for Mutual Economic Assistance.
6. What is socialist economic integration?
7. What is peaceful coexistence?
8. What is the peaceful economic competition between socialism and capitalism and what are the prospects for it?
9. What are the main directions in which the economic competition between socialism and capitalism is advancing?

#### Chapter XVIII

### THE ECONOMIC LAWS GOVERNING THE DEVELOPMENT OF SOCIALISM INTO COMMUNISM

*"Communism is a classless social system with one form of public ownership of the means of production and full social equality of all members of society," states the CPSU Programme, "under it, the all-round development of people will be accompanied by the growth of the productive forces through continuous progress in science and technology; all the springs of co-operative wealth will flow more abundantly, and the great principle 'From each according to his ability, to each according to his needs' will be implemented. Communism is a highly organised society of free, socially conscious working people in which public self-government will be established, a society in which labour for the good of society will become the prime vital requirement of everyone, a necessity recognised by one and all, and the ability of each person will be employed to the greatest benefit of the people."*<sup>1</sup>

Communism grows out of socialism, is a direct continuation of it. Socialism and communism are two phases in the development of a single communist socio-economic formation, and have common features, as well as substantial differences.

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<sup>1</sup> *The Road to Communism*, p. 509.

## 1. THE ECONOMIC COMMON FEATURES AND DIFFERENCES BETWEEN SOCIALISM AND COMMUNISM

### The common features of socialism and communism

The economic basis of socialism and communism is social ownership of the means of production.

During both phases of the communist formation, the relations of production correspond to the productive forces, i.e., the social character of production corresponds to the social ownership of the means of production. The production of material wealth is carried out in the interests of all society.

Under socialism, as under communism, there are no exploiting classes or exploitation of man by man, no racial or national oppression. During the first and the higher phases of communist society, the relations of production are characterised by comradesly co-operation and mutual assistance between people, free from exploitation.

Socialism, like communism, is characterised by a continuous growth of social production on the basis of rapid scientific and technical progress for the purpose of satisfying the material and cultural requirements of all members of society more fully. Under both socialism and communism, it is man himself that is brought to the fore, man as the creator of material and intellectual values and having material and cultural requirements.

Characteristic of both phases of the communist formation is the planned, balanced development of the national economy, ensuring rapid growth rates of production and rational use of society's material and manpower resources, as well as a steady rise in labour productivity.

Under socialism and communism alike, there is no antithesis between town and countryside, between mental and physical labour.

During both phases of the communist formation, labour is free and creative in character. Also common to both phases is the equal duty of all members of society to work according to their abilities.

Under socialism and communism Marxist-Leninist ideology predominates.

Such are the main features common to socialism and communism.

The existence of features common to socialism and communism does not, however, exclude the possibility of differences between the two phases of communist society.

### The chief differences between communism and socialism

The chief differences between communism and socialism arise out of the different degrees of economic and cultural maturity of communist society at the lower and higher stages of its development.

Communism is distinguished from socialism primarily in the incomparably higher level of development of its productive forces. Communism will have a substantially more powerful and sophisticated material and technical basis, which will permit an immeasurable rise in labour productivity and an abundance of material and intellectual boons. Under communism, the highest stage is achieved in the planned, balanced organisation of the entire social economy, the most effective and rational use is ensured of material wealth and manpower resources for satisfying the growing requirements of all members of society.

The relations of production under communism will be characterised by a higher level of economic maturity. Under socialism, socialised property takes two forms—public and collective farm and co-operative, but under communism there will be one communist property of the whole people. The two forms of socialised property under socialism account for the existence of two friendly classes—the working class and the co-operated peasantry. With the establishment of one communist property, the economic basis for the existence of classes and class differences will no longer exist. The socio-economic and cultural and other differences between town and countryside will disappear.

As production technology improves and the cultural and technical level of the working people rises, mental and physical labour will organically combine in people's productive activities. The intelligentsia will no longer be a special social stratum and manual workers will rise to the level of mental workers in terms of their cultural and technical level.



Under communism, the character of labour will change. Under socialism, labour is not yet a primary vital requirement. Under communism, free and creative labour, labour for the good of society as a whole, will become just such a primary vital requirement. But communism does not release the members of society from their duty to work; it is incompatible with idleness and parasitism. Every able-bodied person will participate in social labour and ensure an uninterrupted growth of society's material and cultural wealth.

During the transition from socialism to communism, there is a further development of the forms of distribution of the material and cultural wealth among the members of society. The creation of a communist abundance of vital necessities and the transformation of labour into a primary vital requirement make it possible to go over from the socialist principle of "from each according to his ability, to each according to work done", to the communist principle of "from each according to his ability, to each according to his needs".

An equal relationship with the means of production and labour will be supplemented by equal relations in the distribution of the material wealth in accordance with the rational requirements of a culturally developed person.

Under communism, commodity production and the economic categories connected with it—commodity, money, price, wages, cost accounting, credit and finance—all will disappear.

Communism is the highest organisational form of the life of society. During the transition to communism, as the socialist relations of production develop and improve, changes will also occur in the infrastructure corresponding to them—in the sphere of political and legal institutions, and the forms of social consciousness will be further developed. Socialist statehood will grow into communist social administration.

With the transition to communism, the nations will draw closer and closer together on the basis of their common economic, political and intellectual interests, fraternal friendship and co-operation.

Yet, in spite of the differences between communism and socialism, there is no wall dividing these two phases of social development. Even now one can speak of the shoots of communism growing up within socialism. Thus, in socialist society, communist forms of labour and production organisation arise and develop as social forms for satisfy-

ing the working people's requirements: social consumption funds, boarding schools, kindergartens, nurseries, and so on. Many tangible and visible features of communism are already developing and improving.

## The law of the growth of socialism into communism

Communism is the most just and perfected society on earth. The building of communism is the final goal of the Communist and workers' parties.

The growth of socialism into communism is a *law governed historical process* that cannot be disturbed or avoided at will.

The transition from capitalism to socialism, as we have seen, takes place under the conditions of a class struggle, and requires a fundamental breakdown of social relations, a profound social revolution and a dictatorship of the proletariat.

The transition from socialism to communism is totally different in nature. The growth of socialism into communism takes place without a social revolution, since socialism and communism are just two phases of one and the same communist socio-economic formation. The transition to communism takes place in the absence of exploiting classes, under conditions when the members of society—workers, peasants and intellectuals, have a vital interest in building communism.

Under certain historical conditions, some peoples have made the transition to socialism, or are doing so, bypassing the stage of capitalism, but no country can advance to communism without first passing through the stage of socialism. Only once a society has built socialism can it go over to building a communist society.

The transition from socialism to communism is accomplished *gradually and continuously*. Communism does not appear all of a sudden. The gradual development of socialism into communism is an objective law; it is prepared for by the entire previous development of society.

During the transition from socialism to communism, the material and intellectual preconditions are gradually prepared for the second phase of the communist formation. Not until the necessary conditions have been created can

society advance to communism, i.e., until an abundance of material wealth has been achieved and people are ready to live and work in a communist way.

The gradual transition from socialism to communism is characterised by an acceleration of the advance, by a rapid development of the productive forces and of culture, by revolutionary leaps forward in the development of science and technology. During the building of communism, there is a rapid development of modern industry, large-scale mechanised agriculture, of the entire economy and culture, with the active and conscious participation of the millions of working people.

This is facilitated by the uninterrupted growth of social production on the basis of scientific and technical progress, a rise in the cultural and technical level of production workers, an increase in the consciousness and active-ness of the working people in the struggle to build communism.

The building of communism is not a spontaneous process, but the result of the creativity of the broad masses of the working people, their conscious and active participation in the development of social production, culture and science.

The fruitful building of communism relies on knowledge and application of objective laws, allowing socialist society to select the shortest and most effective ways and methods to implement communist transformations.

The full and final victory of socialism, the building of developed socialist society, the high level of development of the productive forces, and socialist relations of production, the flourishing of science and culture, have all resulted in the Soviet Union starting to create the material and technical basis for communism. The building of communism in the USSR has become a practical matter in which every Soviet working person is involved and has become a task for today, not some distant future.

### The more or less simultaneous transition of the socialist countries to communism

The transition from socialism to communism is inevitable for all countries that have set about to build a socialist society. The building of communism in the USSR is

an integral part of the creation of a communist society by the peoples of the world socialist system. In as far as the social forces—the working class, co-operated peasantry, and people's intelligentsia—and the social forms of economy (enterprises based on the two forms of socialist property) are of one and the same type in the Soviet Union and the other socialist countries, the basic laws governing the building of communism are the same in the USSR and these countries, taking into account the historical and national specifics of each country.

At present, the socialist countries are at different stages in their development. The Soviet Union has already built a developed socialist society. The other fraternal countries are completing, or have virtually completed, the building of socialism. Consequently, there are differences in the level, degree of development and maturity of socialism in the individual countries of the world socialist system.

In this context, the question arises as to how the development of the socialist countries will proceed towards communism. Would it be possible for a single socialist country to achieve communism, while the others were still in the initial stages of building a socialist society? The answer is a categorical no.

The development of the countries within the world socialist system and the use of its advantages mean that the time taken to build socialism can be shortened and open up prospects for a more or less simultaneous transition to communism, within a single historical age.

The economic basis for the more or less simultaneous transition of the socialist countries to communism is provided by the creation of the material preconditions for the building of communism on the foundations of the creative labour of the peoples of each country, of a gradual increase in their contribution to the common cause of consolidating the socialist system, the strengthening co-operation and mutual assistance of the socialist countries.

The more or less simultaneous transition to communism does not mean that the Soviet Union, which was the first to set out on building a communist society, will mark time in order to let the other countries catch up with it.

The levelling out must take place as a result of the more rapid development of the relatively less economically developed countries, their being drawn up to the level of the developed ones. Thus, all the socialist countries will



advance along a single, united front in building a communist society.

Communism is the age-old dream of mankind. This dream is becoming a reality for all the countries of the world socialist system. In the final analysis, all mankind will come to communism. This is the inevitable result of social development.

## 2. THE CREATION OF THE MATERIAL AND TECHNICAL BASIS OF COMMUNISM

Communism is distinguished from socialism primarily in the higher level of development of its productive forces, so an essential condition for the transition from socialism to communism is the creation of the material and technical basis of communism.

To build the material and technical basis of communism means to raise the productive forces of society to a qualitatively new level at which there is an abundance of material and cultural boons and the transition to communist relations becomes possible.

The material and technical basis of communism is characterised by the domination in all industries of the national economy of highly developed systems of machinery and mechanisms, which, given their scale and technical level, ensure the highest possible labour productivity, create the conditions for producing an abundance of material wealth and for going over to distribution according to needs.

In its scale and technical level, the material and technical basis of communism will exceed that of socialism substantially. The elements of the material and technical basis of communism are created under the conditions of socialism, so the task is to provide broad scope for their further improvement and development making use of higher rates of scientific and technical progress. "The close integration of science and production is an imperative of the contemporary epoch."<sup>1</sup>

The creation of the material and technical basis of communism, states the CPSU Programme, "means complete

electrification of the country and perfection on this basis of the techniques, technologies, and organisation of social production in all the fields of the national economy; comprehensive mechanisation of production operations and a growing degree of their automation; widespread use of chemistry in the national economy; vigorous development of new, economically effective branches of production, new types of power and new materials; all-round and rational utilisation of natural, material and labour resources; organic fusion of science and production, and rapid scientific and technical progress; a high cultural and technical level for the working people; and substantial superiority over the more developed capitalist countries in productivity of labour, which constitutes the most important prerequisite for the victory of the communist system".<sup>1</sup>

### The ways to create the material and technical basis of communism

One of the most important ways to create the material and technical basis of communism is *complete electrification of the whole country*. Electrification is the pivot on which the economy of communist society is built; it plays the leading role in providing for all modern scientific and technical progress. Complete electrification will allow profound changes to be made in the techniques and technology of all branches of industry, agriculture, transport, and the way of life in town and countryside.

Complete electrification of the whole country means that industry, agriculture, transport and other branches of the economy will be transferred in toto to the highest technical basis, using electricity.

A unified power grid will be created for the USSR, allowing electricity from the eastern parts of the country to be transported to the European part. The unified power grid of the USSR will be linked to the power grids of the other socialist countries.

Of vital significance for creating the material and technical basis of communism is the *development of engineering*, the all-out development of the production of automatic flow lines and machines, means of automation, telecommunications, electronics, and precision instruments.

<sup>1</sup> *Documents and Resolutions. The 26th Congress of the Communist Party of the Soviet Union*, p. 57.

<sup>1</sup> *The Road to Communism*, p. 513.

"Everything novel created by scientific and technological thought should be assimilated without delay by engineering and embodied by it in highly efficient and reliable machines, instruments, and production lines."<sup>1</sup>

As engineering is developed, comprehensive mechanisation will be introduced in industry, agriculture, construction, transport, loading operations and the municipal economy. Comprehensive mechanisation will embrace all stages of production, all production processes, and this will eliminate manual labour in both the main and ancillary jobs.

Yet comprehensive mechanisation merely prepares the ground for *automation of production*.

The material and technical basis of socialism contains only elements of automation of production, but during the building of the material and technical basis of communism, automated machinery systems come to dominate. Comprehensive automation of production is based on all-round mechanisation, with more and more automated shops and enterprises appearing, which ensure a high technical and economic efficiency. Cybernetics, computers and remote control systems will become widespread in industry, construction, transport, R & D estimation, accounting and management.

Automation and comprehensive mechanisation will serve as the material basis for socialist labour to develop into communist. When there is automation, labour changes in nature, ensuring a rise in the cultural and technical level of workers, the conditions are created for eliminating differences between mental and manual labour.

Comprehensive mechanisation and automation of production processes are vital for promoting scientific and technical progress in the national economy.

Of major importance for creating the material and technical basis of communism is the *use of chemicals* in the national economy.

The use of chemical and synthetic materials makes possible fundamental qualitative transformations in the key spheres of material production. These transformations permit a rapid increase in production, improvement of output quality and, at the same time, a reduction in capital outlays and costs of production.

<sup>1</sup> *Documents and Resolutions. The 26th Congress of the Communist Party of the Soviet Union*, p. 57.

Accelerated development of the chemical industry and a sharp increase in the production of mineral fertilisers and chemical pesticides and herbicides constitute a vital factor behind the rise in agriculture. Without chemicals, there can be no intensification of agricultural production or rapid increase, on this basis, of the yield of grain, the production of meat, milk and other produce.

Of major significance for the creation of the material and technical basis of communism is an *increase in the production of metal and fuel*. The iron and steel industry will be developed considerably. There will be a particular acceleration of the production of light, non-ferrous and rare metals and a considerable rise in the output of aluminium. The coming years will see the consistent priority development of oil and gas extraction, with them being used more and more as raw materials for chemical production. The extraction of coal, gas and oil must satisfy the requirements of the national economy. The 26th CPSU Congress pointed out: "An express condition for accomplishing all the economic tasks—in production and the social sphere—is the development of heavy industry. This applies in particular to its basic branches and, first and foremost, to *fuel and power*."<sup>1</sup>

Vital for creating the material and technical basis of communism is *improvement of the organisation of production*—specialisation and co-operation, as well as appropriate combination of related enterprises.

One effective form of production organisation is the creation of large-scale associations, since only these are capable of concentrating a large enough number of qualified experts, ensuring rapid technical progress and making better and fuller use of resources. Production associations must become the chief link in social production. They are also a step forward in intensifying concentration and socialisation of production.

The creation of the material and technical basis of communism presupposes the broadest introduction of all the achievements of scientific and technical progress and advanced experience in *agriculture*. The creation of a comprehensively developed and highly productive agriculture is an imperative condition for building communism.

The mighty advance of the productive forces in agricul-

<sup>1</sup> *Ibid.*, p. 50.



ture permits two basic, closely interconnected tasks to be resolved: (a) the attainment of an abundance of quality foodstuffs for the population and raw materials for industry; (b) a gradual transition in the Soviet countryside to communist social relations and elimination of the substantial differences between town and village.

The key to fulfilling these grandiose tasks is *intensification of agriculture*, which is connected with the broad introduction of chemicals in agricultural production, the all-out development of irrigated farming, the introduction of comprehensive mechanisation and electrification of agriculture.

A tremendous role is played in creating the material and technical basis by *science* and scientific and technical progress, in order that science "in addition to working on fundamental problems" might concentrate "its efforts in a larger measure on solving key economic problems and on discoveries that could bring about truly revolutionary changes in production".<sup>1</sup>

The progress of science and technology allows the most effective use to be made of the riches and forces of nature in the people's interests, new sources of energy to be discovered, new materials to be created, and methods to be developed for affecting climatic conditions and mastering outer space. The application of the achievements of the scientific and technological revolution is increasingly becoming a decisive factor behind the mighty growth of society's productive forces. Science, as Marx foresaw, is fully becoming a direct productive force of society.

The development of science and the introduction of its achievements into the national economy is a matter of particular concern for the Communist party and socialist state.

Of primary significance for creating a communist society is a steady and rapid *growth of the productivity of labour*. "Communism," wrote Lenin, "is the higher productivity of labour—compared with that existing under capitalism—of voluntary, class-conscious and united workers employing advanced techniques."<sup>2</sup>

As the productive forces develop, the relations of pro-

duction improve and the level of socialisation of production rises. Thus, during the 1970s, in the USSR there was an increase in the economic and social role of people's property, and collective farm and co-operative property drew even closer to it. There was an increase in the numbers of the working class and in its role as the leading force in building communism. The collective farm peasantry became more similar to the working class in their socio-economic position.

Consequently, the necessary conditions were created for fulfilling the new, and larger-scale tasks under the long-term socio-economic policy of the Communist Party.

The *Eleventh Five Year Plan* (1981-1985) is a major new stage in creating the material and technical basis of communism in the USSR, in improving social relations, moulding the new man, and developing the socialist way of life.

*The chief task of the Eleventh Five-Year-Plan period is to achieve a further growth of the welfare of the Soviet people on the foundations of a stable and progressive development of the national economy, acceleration of scientific and technical progress and transfer of the economy on to the lines of intensive development, a more rational use of the country's economic potential and all-out economies of all types of resource and improvement of the quality of work.*

In fulfilling the tasks involved in creating the material and technical basis of communism, it is of decisive significance to implement the Communist Party's strategic course of raising the efficiency of social production through all-round intensification.

The transition to running the economy intensively is out of the question unless the latest scientific and technological achievements are used in production. "Socialism," Lenin stressed, "is inconceivable without ... engineering based on the latest discoveries of modern science."<sup>1</sup>

The creation of the material and technical basis of communism presupposes a further development of society's chief productive force—man himself.

<sup>1</sup> *Ibid.*, p. 55.

<sup>2</sup> V. I. Lenin, "A Great Beginning", *Collected Works*, Vol. 29, p. 427.

<sup>1</sup> V. I. Lenin, "'Left-Wing' Childishness and the Petty-Bourgeois Mentality", *Collected Works*, Vol. 27, p. 339.

## The development of society's chief productive force—man

To create the material and technical basis of communism means to achieve a high cultural and technical level of the working people, this being a vital condition for increasing their creative activity and changing the character of labour.

Under developed socialism, the working people already possess a high level of culture, education and skills.

Thanks to comprehensive mechanisation and automation of production, the role of labour is coming increasingly to consist of the functions of operation, supervision, adjustment and improvement of automated machinery systems. This requires broadly developed and highly-qualified workers in all branches of the economy—industry, agriculture, construction, transport and so on.

The level of technological development under communism will change not only the degree of man's skills but also his intellectual outlook. The necessary material conditions will be created for the all-round development of each person's abilities and talents and for him to enjoy a rich intellectual life. The transition to communism, the CPSU Programme states, presupposes education and training that will make people communist-minded and highly cultured, capable of doing both physical and mental work, of taking an active part in the various social, governmental, scientific and cultural spheres.

### 3. THE GROWTH OF SOCIALIST RELATIONS OF PRODUCTION INTO COMMUNIST ONES

During the transition from socialism to communism, as the productive forces develop, the relations of production also develop and improve in close connection and mutual dependence with them. The growth of the productive forces entails a gradual development of socialist relations of production into communist ones.

## From socialist to communist ownership

Under socialism, the relations of production, as we have seen, are based on socialised socialist property in its two forms: public (of the whole people) and collective farm and co-operative.

As the transition is made to communism, there is a gradual drawing together, and eventually a coalescence of the public and collective farm and co-operative forms of socialist ownership into a single, communist ownership by the whole people.

The formation of one communist ownership by all the people will result from the all-round development and improvement of both public and collective farm and co-operative ownership.

Public property will develop primarily *quantitatively*, through the broad-scale construction of new enterprises and expansion of existing ones in industry, agriculture, and transport. The advance towards communism will be accompanied by a further expansion of the scale of production and a rise in its efficiency.

Public property also changes *qualitatively*, in connection with the continuous rise in the degree of its socialisation. During the advance towards communism there will be increased concentration of production, huge, fully automated enterprises will be built, a unified power grid will be created, the economic links between the different parts of the country will be expanded and strengthened, the social division of labour will be broadly developed, as will specialisation and co-operation, and the combination of enterprises.

As public property grows, enterprises will become more advanced and develop into the enterprises of a communist society. The characteristic features of this process are: new machinery, a high standard of production organisation and efficiency through increased automation of production operations and the introduction of automation in management and control, a rise in the cultural and technical level of the workers, an increasing coalescence of physical and mental labour, an increase in the share of engineers and technicians in enterprises, a promotion of emulation and the application of scientific achievements, the best forms of labour organisation and the best methods of raising labour productivity, broad participation by collec-



tives of the working people in running enterprises and the spread of communist forms of labour.

There will be an increase in the significance of public ownership in the spheres of science, culture, medical care and domestic services.

During the building of communism, the sphere of influence of public ownership expands. It will embrace increasingly the social forms of organisation of labour and life.

The transition to one communist property presupposes also the all-out *development and improvement of collective farm and co-operative property*.

During the transition from socialism to communism, *the level of socialisation of collective farm production will rise*. The non-distributable assets of the collective farms are constantly growing.

As the non-distributable assets of collective farms develop and multiply, there is an increasing change in the qualitative content of collective farm and co-operative property. Presently the property of collective farms consists of modern machinery—tractors, combine-harvesters, motor vehicles, etc. The property of collective farms is the result of the collective labour of the farmers, of workers, engineers and scientists.

The Soviet state spends huge amounts on training agricultural personnel, grants billions of roubles on credit to collective farms, providing them with seeds, foodstuffs and other loans. All this means that the public wealth of the collective farms is created with the help of the entire Soviet people.

A tremendous role in increasing the socialisation of collective farm and co-operative property to the level of the property of the whole people is played by the socialist state's policy of further developing agriculture.

As the productive forces grow, inter-farm production links and the socialisation of farms leave the bounds of individual farms. This process proceeds through a combination of the forces and means of collective farms in building inter-farm enterprises and cultural and other amenities, joint state-collective farm power stations, enterprises for the primary processing, storage and transportation of agricultural produce, various forms of construction, the production of building materials, and so on.

When several collective farms own such installations jointly, the property becomes increasingly like the property of the whole people in nature.

In the context of the development of the electrification of agriculture, of the mechanisation and automation of production, there is an increasing coalescence and merging of collective farm means of production with state, people's means of production, and the joint organisation of various types of production becomes more and more widespread.

Of major significance for the rise of collective farm and co-operative property to the level of the property of the whole people is the creation of the *agro-industrial complex*, which consists of all the branches of the socialist national economy, including agriculture, and related spheres of the economy that serve agricultural production and bring produce to the consumer.

The 26th Congress of the CPSU focused particularly on the development of the agro-industrial complex. The Guidelines for the Economic and Social Development of the USSR for 1981-1985 and the Period up to 1990 point out: "The principal task of the agro-industrial complex is reliably to supply the country with foodstuffs and agricultural raw materials.

"In the interests of successful realisation of the food programme, to ensure unified planning, proportionate and balanced development of the branches of the agro-industrial complex, considerable strengthening of its material and technical base, improvement of economic links between branches, organisation of their smooth co-operation in increasing the output of agricultural products, improvement of the storage, transportation, processing and delivery of produce to the consumer".<sup>1</sup>

The emergence and development of inter-farm and state and collective farm enterprises will gradually transform collective farm and co-operative property into one of the whole people.

As the degree of socialisation of collective farm and co-operative property increases to that of people's property, collective farms will come to compare in their economic conditions with people's enterprises in agriculture. They will become highly developed, mechanised farms. The rise

<sup>1</sup> Documents and Resolutions. The 26th Congress of the Communist Party of the Soviet Union, p. 196.

in labour productivity will make collective farms economically powerful and the farmers themselves will be well provided for, their requirements being met completely from the common economy of the collective farms.

The transition to communism will bring a change in the character of the *personal property of the working people*. Since, in communist society, the dominant principle is "from each according to his abilities, to each according to his needs", the personal savings, stocks, private houses and subsidiary farms to a great extent will lose any economic sense. Personal property under communism will consist mainly of actual items for personal use.

During the transition to communism, on the basis of the high development of the productive forces the socio-economic differences in society will be overcome.

### Elimination of the socio-economic differences in society

Socialism has eliminated the conflict between town and countryside. The interests of town and countryside now coincide and are directed towards a single goal—the building of communism. But under socialism there are still substantial differences between town and countryside that consist mainly in public (people's) ownership of the means of production predominating in the town and collective farm and co-operative in the countryside.

The gradual drawing together and, subsequently, coalescence of public and collective farm and co-operative property create the conditions for *overcoming the substantial differences between town and countryside*. The ways to achieve the former are, at the same time, the ways to achieve the latter.

"The social structure of the countryside is greatly influenced by the drawing together of the two forms of socialist property and by the development of mixed economic organisations involving collective farms and state enterprises."<sup>1</sup>

This process proceeds from the further development of the productive forces and the saturation of agriculture with technology.

<sup>1</sup> *Ibid.*, p. 68.

The technical re-equipment of agriculture will bring a rise in the cultural and technical level of the rural population. The labour of collective farmers, based on broad application of the latest agricultural technology, will become increasingly like the labour of industrial workers employed in state industrial enterprises. Under communism, agricultural labour will become a variety of industrial labour.

"*Elimination of socio-economic and cultural distinctions between town and country*," states the CPSU Programme, "*and of differences in their living conditions will be one of the greatest gains of communist construction.*"<sup>1</sup>

Socialism eliminates the antithesis between physical and mental workers. In socialist society, mental workers and physical workers have common interests, they do a common work, for the good of the whole people. Characteristic of socialism is close comradely co-operation and mutual assistance between mental and physical workers. Workers, peasants and intellectuals—all have a vital vested interest in the continuous development and improvement of production.

Under socialist conditions, substantial differences between physical and mental labour still remain, however. As a rule, physical work is done by workers and peasants, while mental work is carried out by intellectuals. Moreover, the general educational and cultural level of physical workers is lower than that of intellectuals.

The gradual transition to communism will see *the substantial differences between mental and physical labour overcome*. This is based on a further development of modern, mechanised and automated production, which replaces heavy manual labour with machines and brings a rise in the level of general education and scientific and technical knowledge of the working people up to that of engineers and agronomists.

Elimination of the substantial differences between mental and physical labour makes all labour an organic unity of both types. All working people in communist society, irrespective of their speciality, will work combining, as Marx wrote, both mental and physical labour.

Thus, the victory of communism will bring an organic coalescence of mental and physical work in people's production activities. Intellectuals cease to form a special social

<sup>1</sup> *The Road to Communism*, p. 532.



stratum, and physical workers reach the cultural and technical level of mental workers.

The building of communism erases the bounds between classes and establishes full social homogeneity. *Under communism there will be no classes nor class differences and people will not differ in terms of their social position.*

Under communism full equality of people is accomplished. In communist society, people will have equal social positions, identical relations to the means of production, equal conditions of work and distribution. They will take a more active part in the management of public affairs. Harmonious relations will be consolidated between the individual and society on the basis of the unity of social and personal interests.

The building of communism will strengthen the social homogeneity of nations even more, will further the development of the common communist features of culture, morals, way of life, and a strengthening of mutual trust and friendship between them. As communism is built, the exchange of material and intellectual riches between nations will grow in intensity and the contribution of each Soviet republic to the common cause of building communism will grow.

As pointed out at the 26th CPSU Congress, "the intensive economic and social development of each of our republics speeds up the process of their coming closer together in every field. National cultures are thriving and enriching one another, and we are witnessing the moulding of the culture of the whole Soviet people—a new social and international community".<sup>1</sup>

The victory of communism in the USSR will bring all the Soviet nations and nationalities closer together, strengthen their economic and ideological community, and develop the common, communist features of their intellectual appearance.

### Labour—man's prime necessity of life

The rise in the assets-to-worker ratio, elimination of the substantial differences between mental and physical labour, and the fostering of a communist attitude to work result

<sup>1</sup> *Documents and Resolutions. The 26th Congress of the Communist Party of the Soviet Union*, p. 74.

in the labour activities of each individual becoming a prime necessity of life, a natural manifestation of the functions of a healthy body and mind.

Free, creative labour, labour for the sake of all society, will bring every working person creative joy and satisfaction.

Under communism, when people will have full opportunities for comprehensively developing their abilities and talents, everyone will be able to choose the work he wants to do, taking into account that this work must be needed by society and interesting for the worker himself.

Labour according to a person's abilities will become a habit, a primary vital requirement.

The transformation of labour activities into a prime necessity of life of every person will engender a new communist attitude to labour. Describing labour under communism, Lenin wrote: "Communist labour in the narrower and stricter sense of the term is labour performed gratis for the benefit of society, labour performed not as a definite duty, not for the purpose of obtaining a right to certain products, not according to previously established and legally fixed quotas, but voluntary labour, irrespective of quotas; it is labour performed without expectation of reward, without reward as a condition, labour performed because it has become a habit to work for the common good, and because of a conscious realisation (that has become a habit) of the necessity of working for the common good—labour as the requirement of a healthy organism."<sup>1</sup>

The new communist attitude to labour is beginning to emerge under the conditions of socialist society. The person of the communist future is moulded in the course of the struggle for communism, in the process of labour and social activities.

Soviet society is a society of labour. The Party and state have exerted and are exerting much effort to make man's labour not only more productive but also more interesting and creative.

Communism and labour are inseparable, which is why the fostering of a love and respect for labour as a prime necessity of life is so important.

The cultivation of a communist attitude to labour is a

<sup>1</sup> V. I. Lenin, "From the Destruction of the Old Social System to the Creation of the New", *Collected Works*, Vol. 30, p. 517.

tremendously important task in the building of communism. Educational work must pivot on the development of a communist attitude to labour in all members of society. Labour for the benefit of society is the sacred duty of everyone.

A major role in fostering a communist attitude to labour belongs to the trades unions, the Leninist Young Communist League and Soviet schools.

As Lenin put it, trades unions are the school of communism. They organise socialist emulation, spread advanced methods and forms of labour, and carry out considerable cultural work on a mass scale among the working people.

The Young Communist League also plays a major part in cultivating a communist attitude to labour in young people. The Young Communist League mobilises young people for feats of labour, fostering in the young builders of communism a feeling of responsibility before society.

Of great significance in the cultivation of a communist attitude to labour is schooling. The Soviet school sets itself the task of moulding not only diversely educated people, but also ones capable of working, of producing material wealth.

A communist attitude to labour is expressed in a selfless struggle to fulfil and overfulfil the national economic plans, in the development of socialist emulation, particularly competition for the title of communist labour shock worker and work collective, in such mass scale patriotic movements of the Soviet people as that for the development of the virgin and fallow lands, in the construction of the Baikal-Amur Railway, and so on.

A clear example of a communist attitude to labour is the mass movement for communist labour, in which hundreds of thousands of work collectives participate: work teams, production sections, workshops, and enterprises. The participants in the movement implement the slogan: "Learn to work and live in a communist way!"

Communist labour shock workers strive to ensure that relations in every-day life, the family and day-to-day contacts with other people meet the high demands made by communist morality. The builder of communism is a person of high ideals and moral principles. This is manifested concretely in the moral code of the builder of communism, declared in the CPSU Programme.

The development and improvement of socialist relations of production during the construction of a communist so-

ciety are also expressed in the development of the forms of distribution of material and intellectual boons.

## Distribution according to needs

Under communism, the socialist principle of "from each according to his abilities, to each according to work done" will be replaced by the communist one of "from each according to his abilities, to each according to his needs".

Marx wrote: "After the enslaving subordination of the individual to the division of labour, and therewith also the antithesis between mental and physical labour, has vanished; after labour, has become not only a means of life, but life's prime want; after the productive forces have also increased with the all-round development of the individual, and all the springs of co-operative wealth flow more abundantly—only then can the narrow horizon of bourgeois right be crossed in its entirety and society inscribe on its banners: From each according to his ability, to each according to his needs!"<sup>1</sup>

The most important thing for the transition to the communist distribution principle is for a level of production development to be attained that can provide an abundance of material and cultural boons, which means that there is plenty of everything in society: means of production and consumer goods—foodstuffs, clothing, footwear, and cultural and living conditions—schools, theatres, cinemas, radios, transport, housing, and so on.

The abundance of vital benefits and the implementation of the principle of "to each according to his needs" will mean that everyone, irrespective of his position, the quantity and quality of the work that he provides for society, will receive from society everything that he requires. Communist distribution according to needs must not, of course, be understood in the petty bourgeois sense of giving everyone everything he might take a fancy to. Distribution according to needs presupposes satisfaction of the requirements of a highly cultured, highly educated person who respects the rules of living in a communist society.

Communist forms of distribution do not appear immedi-

<sup>1</sup> K. Marx and F. Engels, *Selected Works* in three volumes, Vol. 3, p. 19.



ately in their developed and final form; at first they will coexist with forms of socialist distribution according to work done. There will be a gradual transition from the socialist principle of distribution according to work done to the communist one of distribution according to needs.

During the transition from socialism to communism a growing share of the material and cultural boons will be distributed among the members of society through the social consumption funds, irrespective of the quantity and quality of their labour, i.e., free of charge, gratis.

The social consumption funds provide the population with free medical care, free education and training skills, allowances, pensions, student grants, paid holidays, free and subsidised trips to sanatoria and holiday homes, and a number of other payments and privileges.

The growth of the social consumption funds will make possible a considerable advance in the practical implementation of the communist distribution principle.

The development and improvement of relations of production give rise, during the transition to communism, to the need for changes in the infrastructure, too.

### The political organisation of society in the period of the transition to communism

Marxism-Leninism teaches that the state is the political infrastructure on the economic basis. Changes in the latter engender changes in the former.

Thus, the dictatorship of the proletariat, established as a result of the victory of the October Revolution, which eliminated the exploiting classes and ensured the full and final victory of socialism and society's transition to building communism, has ceased to be necessary in the USSR from the point of view of the tasks involved in the country's internal development. The historical mission of the working class—to build communism—has become a task of the whole people. The Soviet socialist state that emerged initially as a dictatorship of the working class has become a *state of the whole people, an organ expressing the will of the whole people*.

"The Union of Soviet Socialist Republics," runs Article I of the Constitution of the USSR, "is a socialist state of

the whole people, expressing the will and interests of the workers, peasants, and intelligentsia, the working people of all the nations and nationalities of the country."<sup>1</sup>

The state of the whole people is a new stage in the development of the socialist state, an outstanding landmark in the transformation of socialist statehood into communist social self-government.

The socialist state of the whole people continues to fight for the cause of the proletarian dictatorship and serves as the organising body in fulfilling the tasks of building communism.

The supreme goal of the Soviet state is to build a classless communist society, in which communist social administration will be developed. The chief tasks of the socialist state of the whole people are: to create the material and technical basis of communism, improve socialist social relations and transform them into communist ones, mould the man of communist society, raise the material and cultural standard of living of the working people, ensure the country's security, help to strengthen peace and develop international co-operation.

The main line in the development of socialist statehood under contemporary conditions is the all-round development and improvement of socialist democracy, active participation by all members of society in running the state and managing economic and cultural development, improvement of the work of the state machine and strengthening of people's control over its activities.

Under developed socialism, particular significance is acquired by improvement of those state executive organs that organise economic and cultural development, since they have a tremendous future before them. Under communism, they will, having lost their political character, grow into the organs of social self-government required for running the complex and diverse processes of economic and cultural life.

Once a communist society has been built, from the point of view of internal conditions there will no longer be any need for a state. From that of external conditions, however, the state can only wither away completely once communism has triumphed throughout the world. While imperialism still survives and there are imperialist countries, such state

<sup>1</sup> Constitution (Fundamental Law) of the Union of Soviet Socialist Republics, p. 19.

organs as armed forces must be strengthened as much as possible. So the state will remain under communism, too, as long as there is a threat of imperialist aggression.

Consequently, for the state to wither away completely, both the necessary internal conditions—the building of a communist society, and the external ones—victory and consolidation of socialism internationally, must be created.

The state will continue to exist for a long time after the victory of the first phase of communism. The withering away of the state will be a long, drawn-out process, covering a whole historical epoch, and will only be complete when society is fully mature and ready for self-government. Only once a developed communist society has been built in the USSR and socialism has triumphed and been consolidated internationally will the need for a state disappear and the state wither away.

### The Marxist-Leninist party in the period of communist construction

Leninism teaches that the successful building of socialism and communism is only possible under the guidance of a Marxist-Leninist party, armed with advanced theory, tempered in battle, enjoying the working people's trust and capable of expressing the mood of the masses and influencing them.

The leading and directing force of Soviet society, the core of its political system, of public and social organisations is the Communist Party of the Soviet Union. The CPSU exists for the people and serves the people.

Armed with Marxist-Leninist teaching, the Communist Party determines the general prospects for society's development, the line of the USSR's internal and foreign policy; it guides the great creative activities of the Soviet people, making its drive for the victory of communism planned, balanced and scientifically substantiated in character.

As society advances towards communism, the role and significance of the Marxist-Leninist party grows and grows. The increasing role and significance of the Communist Party as the guiding force of Soviet society results from the growing scale and complexity of the tasks involved in building communism, the rising creative activity of the masses, the involvement of millions of working people in

running affairs of state and production, a further development of socialist democracy, an increase in the role of social organisations and the growing significance of the theory of scientific communism.

Armed with a knowledge of the laws governing the development of society, the Communist Party ensures correct management of all the work in building communism, giving it an organised, planned, balanced and scientifically substantiated character.

The guiding and organising activities of the Marxist-Leninist party are the main condition for the working class to exert the decisive influence on the development of the new society.

The Party's faithfulness to the principles of Marxism-Leninism, to the interests of the working class and all the working people, the strengthening of the unity of the Party and people, constitute the earnest of the successful fulfilment of Lenin's behests, of the further victory of the revolutionary cause, the cause of communism.

\* \* \*

The Soviet people, under the leadership of the Communist Party, are successfully building their bright future—communism.

Over a hundred years ago, in the *Manifesto of the Communist Party*, Marx and Engels wrote: "A spectre is haunting Europe—the spectre of Communism."<sup>1</sup> The courageous selfless struggle of the working people of all countries has brought mankind closer to communism. A very long path soaked with the blood of those who have fought for the happiness of the people had to be covered before communism, which was once no more than a dream, could become a mighty force of today, a society which is being built over vast expanses of the earth.

Every new step made by the Soviet people towards communism inspires the working masses of the capitalist countries in the struggle for liberation from social oppression, and accelerates the triumph of the ideas of Marxism-Leninism, the ideas of communism throughout the world.

<sup>1</sup> K. Marx and F. Engels, "Manifesto of the Communist Party", Karl Marx and Frederick Engels, *Collected Works*, Vol. 6, p. 481.



The communist path is the path of the peoples of the whole world. From capitalism to communism—that is the way mankind is developing.

#### REVISION EXERCISES

1. What are the common features of socialism and communism?
2. What are the differences between communism and socialism?
3. The inevitability of the development of socialism into communism.
4. What are the ways of creating the material and technical basis of communism?
5. In what is the development of the chief productive force of society—man—expressed?
6. What changes take place in socialist property as it develops into communist property?
7. Which socio-economic differences disappear during the transition to communism and how does this take place?
8. Describe labour as the prime necessity of life.
9. The communist principle of the distribution of material wealth.
10. The change in the political organisation of society in the period of the transition to communism.
11. The role of the Marxist-Leninist party in building communism.

#### REQUEST TO READERS

Progress Publishers would be glad to have your opinion of this book, its translation and design and any suggestions you may have for future publications.

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**P.I. Nikitin**

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# **The Fundamentals of Political Economy**

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This is a systematic course in political economy, written in a popular language understandable to the beginner. The author considers the subject-matter of political economy and precapitalist modes of production, and focuses considerable attention on capitalist relations of production. The reader is also presented with the basic laws of the development and economic categories of socialism—the first stage of the communist mode of production.

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